

NOTICE ACCOMPANYING THE ELECTRONIC PROSPECTUS OF SDS GROUP BERHAD (“SDSG” OR THE “COMPANY”) DATED 23 AUGUST 2019 (“ELECTRONIC PROSPECTUS”)

(Unless otherwise indicated, specified or defined in this notice, the definitions in the Prospectus shall apply throughout this notice)

Website

The Electronic Prospectus can be viewed or downloaded from Bursa Malaysia Securities Berhad's (“Bursa Securities”) website at www.bursamalaysia.com (“Website”).

Availability and Location of Paper/Printed Prospectus

Any applicant in doubt concerning the validity or integrity of the Electronic Prospectus should immediately request a paper/printed copy of the Prospectus directly from the Company, M&A Securities Sdn Bhd (“M&A Securities”), or Tricor Investor & Issuing House Services Sdn Bhd. Alternatively, the applicant may obtain a copy of the Prospectus from participating organisations of Bursa Securities, members of the Association of Banks in Malaysia and members of the Malaysian Investment Banking Association.

Prospective investors should note that the Application Form is not available in electronic format.

Jurisdictional Disclaimer

This distribution of the Electronic Prospectus and the sale of the units are subject to Malaysian law. Bursa Securities, M&A Securities and SDSG take no responsibility for the distribution of the Electronic Prospectus and/or the sale of the units outside Malaysia, which may be restricted by law in other jurisdictions. The Electronic Prospectus does not constitute and may not be used for the purpose of an offer to sell or an invitation of an offer to buy any units, to any person outside Malaysia or in any jurisdiction in which such offer or invitation is not authorised or lawful or to any person to whom it is unlawful to make such offer or invitation.

Close of Application

Applications will be accepted from 10.00 a.m. on 23 August 2019 and will close at 5.00 p.m. on 23 September 2019.

In the event the Closing Date is extended, SDSG will advertise the notice of the extension in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia prior to the original Closing Date.

The Electronic Prospectus made available on the Website after the closing of the application period is made available solely for informational and archiving purposes. No securities will be allotted or issued on the basis of the Electronic Prospectus after the closing of the application period.

Persons Responsible for the Internet Site in which the Electronic Prospectus is Posted

The Electronic Prospectus which is accessible at the Website is owned by Bursa Securities. Users' access to the website and the use of the contents of the Website and/or any information in whatsoever form arising from the Website shall be conditional upon acceptance of the terms and conditions of use as contained in the Website.

The contents of the Electronic Prospectus are for informational and archiving purposes only and are not intended to provide investment advice of any form or kind, and shall not at any time be relied upon as such.

S.D.S

SINCE 1987



PROSPECTUS

S.D.S
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SDS GROUP BERHAD

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SDS GROUP BERHAD

(Company No. 1241117-T)

(Incorporated in Malaysia under the Companies Act, 2016)

INITIAL PUBLIC OFFERING IN CONJUNCTION WITH OUR LISTING ON THE ACE MARKET OF BURSA MALAYSIA SECURITIES BERHAD ("BURSA SECURITIES") COMPRISING PUBLIC ISSUE OF 104,296,800 NEW ORDINARY SHARES IN OUR COMPANY ("SHARES") IN THE FOLLOWING MANNER:

- 20,291,200 NEW SHARES AVAILABLE FOR APPLICATION BY THE MALAYSIAN PUBLIC;
- 23,132,000 NEW SHARES AVAILABLE FOR APPLICATION BY OUR ELIGIBLE DIRECTORS, EMPLOYEES AND BUSINESS ASSOCIATES/PERSONS WHO HAVE CONTRIBUTED TO THE SUCCESS OF OUR GROUP; AND
- 60,873,600 NEW SHARES BY WAY OF PRIVATE PLACEMENT TO SELECTED INVESTORS

AT AN ISSUE PRICE OF RM0.23 PER SHARE, PAYABLE IN FULL UPON APPLICATION.

Adviser, Sponsor, Underwriter and Placement Agent



M&A SECURITIES SDN BHD (15017-H)

(A Wholly-Owned Subsidiary of Insas Berhad)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

This Prospectus has been registered by the SC. The registration of this Prospectus, should not be taken to indicate that the SC recommends the offering or assumes responsibility for the correctness of any statement made, opinion expressed or report contained in this Prospectus. The SC has not, in any way, considered the merits of the securities being offered for investment. The SC is not liable for any non-disclosure on the part of the company and takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness, and expressly disclaims any liability for any loss you may suffer arising from or in reliance upon the whole or any part of the contents of this Prospectus. No securities will be allotted or issued based on this Prospectus after 6 months from the date of this Prospectus.

YOU ARE ADVISED TO READ AND UNDERSTAND THE CONTENTS OF THIS PROSPECTUS. IF IN DOUBT, PLEASE CONSULT A PROFESSIONAL ADVISER.

FOR INFORMATION CONCERNING RISK FACTORS WHICH SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS, SEE "RISK FACTORS" COMMENCING ON PAGE 137.

THE ACE MARKET OF BURSA SECURITIES IS AN ALTERNATIVE MARKET DESIGNED PRIMARILY FOR EMERGING CORPORATIONS THAT MAY CARRY HIGHER INVESTMENT RISK WHEN COMPARED WITH LARGER OR MORE ESTABLISHED CORPORATIONS LISTED ON THE MAIN MARKET. THERE IS ALSO NO ASSURANCE THAT THERE WILL BE A LIQUID MARKET IN THE SHARES OR UNITS OF SHARES TRADED ON THE ACE MARKET. YOU SHOULD BE AWARE OF THE RISKS OF INVESTING IN SUCH CORPORATIONS AND SHOULD MAKE THE DECISION TO INVEST ONLY AFTER CAREFUL CONSIDERATION.

THE ISSUE, OFFER OR INVITATION FOR THE OFFERING IS AN EXEMPT TRANSACTION UNDER SECTION 212(8) OF THE CAPITAL MARKETS AND SERVICES ACT 2007 AND IS THEREFORE NOT SUBJECT TO THE APPROVAL OF THE SC.

THIS PROSPECTUS IS DATED 23 AUGUST 2019



SDS GROUP BERHAD



DAILY BAKERY SDN. BHD.



SDS TOP BAKER SDN. BHD.



5, Jalan Selatan 8, Off Jalan Kempas Lama,
Kawasan Perusahaan Ringgan Pulai,
81200 Johor Bahru, Johor

+ 607 288 8305 (Hunting Line)
+ 607 556 7116 (Fax)

info@sdsgroups.com

Our Directors and Promoters (as defined herein) have seen and approved this Prospectus. They collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus. Having made all reasonable enquiries, and to the best of their knowledge and belief, they confirm that there is no false or misleading statement or other facts which if omitted, would make any statement in this Prospectus false or misleading.

M&A Securities Sdn Bhd, being our Adviser, Sponsor, Underwriter and Placement Agent to our IPO (as defined herein), acknowledges that, based on all available information, and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

Admission to the Official List of Bursa Malaysia Securities Berhad ("Bursa Securities") is not to be taken as an indication of the merits of our IPO, our Company, or our shares.

This Prospectus, together with the Application Form (as defined herein), has also been lodged with the Registrar of Companies, who takes no responsibility for its contents.

You should note that you may seek recourse under Sections 248, 249 and 357 of the Capital Markets and Services Act 2007 ("CMSA") for breaches of securities laws including any statement in the Prospectus that is false, misleading, or from which there is a material omission; or for any misleading or deceptive act in relation to the Prospectus or the conduct of any other person in relation to our Group (as defined herein).

Securities listed on Bursa Securities are offered to the public premised on full and accurate disclosure of all material information concerning our IPO, for which any person set out in Section 236 of the CMSA, is responsible.

Approval has been obtained from Bursa Securities for the listing of and quotation for our Shares (as defined herein) on 11 February 2019. Our admission to the Official List of the ACE Market of Bursa Securities is not to be taken as an indication of the merits of our IPO, our Company or our Shares. Bursa Securities shall not be liable for any non-disclosure on our part and takes no responsibility for the contents of this Prospectus, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

The Securities Commission ("SC") has on 18 February 2019 approved the resultant equity structure of our Company under the equity requirement for public listed companies pursuant to our Listing (as defined herein).

This Prospectus has not been and will not be made to comply with the laws of any jurisdiction other than Malaysia, and has not been and will not be lodged, registered or approved pursuant to or under any applicable securities or equivalent legislation or by any regulatory authority or other relevant body of any jurisdiction other than Malaysia.

We will not, prior to acting on any acceptance in respect of our IPO, make or be bound to make any enquiry as to whether you have a registered address in Malaysia and will not accept or be deemed to accept any liability in relation thereto whether or not any enquiry or investigation is made in connection therewith.

It shall be your sole responsibility if you are or may be subject to the laws of countries or jurisdictions other than Malaysia, to consult your legal and/or other professional advisers as to whether our IPO would result in the contravention of any law of such countries or jurisdictions.

Further, it shall also be your sole responsibility to ensure that your application for our IPO Shares would be in compliance with the terms of our IPO as stated in our Prospectus and the Application Form and would not be in contravention of any laws of countries or jurisdictions other than Malaysia to which you may be subjected. We will further assume that you had accepted our IPO in Malaysia and will be subjected only to the laws of Malaysia in connection therewith.

However, we reserve the right, in our absolute discretion to treat any acceptance as invalid if we believe that such acceptance may violate any law or applicable legal or regulatory requirements.

No action has been or will be taken to ensure that this Prospectus complies with the laws of any country or jurisdiction other than the laws of Malaysia. It shall be your sole responsibility to consult your legal and/or other professional adviser on the laws to which our IPO or you are or might be subjected to. Neither us nor our Adviser nor any other advisers in relation to our IPO shall accept any responsibility or liability in the event that any application made by you shall become illegal, unenforceable, avoidable or void in any country or jurisdiction.

ELECTRONIC PROSPECTUS

This Prospectus can be viewed or downloaded from Bursa Securities' website at www.bursamalaysia.com. The contents of the Electronic Prospectus and the copy of this Prospectus registered with the SC are the same.

You are advised that the internet is not a fully secured medium, and that your Internet Share Application (as defined herein) may be subject to the risks of problems occurring during the data transmission, computer security threats such as viruses, hackers and crackers, faults with computer software and other events beyond the control of the Internet Participating Financial Institutions (as defined herein). These risks cannot be borne by the Internet Participating Financial Institutions.

If you are in doubt of the validity or integrity of an Electronic Prospectus, you should immediately request from us, the Adviser or Issuing House (as defined herein), a paper printed copy of this Prospectus.

In the event of any discrepancy arising between the contents of the electronic and the contents of the paper printed copy of this Prospectus for any reason whatsoever, the contents of the paper printed copy of this Prospectus which are identical to the copy of the Prospectus registered with the SC shall prevail.

In relation to any reference in this Prospectus to third party internet sites (referred to as "Third Party Internet Sites"), whether by way of hyperlinks or by way of description of the third party internet sites, you acknowledge and agree that:

- (a) We and our Adviser do not endorse and is not affiliated in any way with the Third Party Internet Sites and is not responsible for the availability of, or the contents or any data, information, files or other material provided on the third party internet sites. You shall bear all risks associated with the access to or use of the Third Party Internet Sites;
- (b) We and our Adviser are not responsible for the quality of products or services in the Third Party Internet Sites, for fulfilling any of the terms of your agreements with the Third Party Internet Sites. We and our Adviser are also not responsible for any loss or damage or costs that you may suffer or incur in connection with or as a result of dealing with the Third Party Internet Sites or the use of or reliance of any data, information, files or other material provided by such parties; and
- (c) Any data, information, files or other material downloaded from Third Party Internet Sites is done at your own discretion and risk. We and our Adviser are not responsible, liable or under obligation for any damage to your computer system or loss of data resulting from the downloading of any such data, information, files or other material.

Where an Electronic Prospectus is hosted on the website of the Internet Participating Financial Institutions, you are advised that:

- (a) The Internet Participating Financial Institutions are only liable in respect of the integrity of the contents of an Electronic Prospectus, to the extent of the contents of the Electronic Prospectus situated on the web server of the Internet Participating Financial Institutions and shall not be responsible in any way for the integrity of the contents of an Electronic Prospectus which has been downloaded or otherwise obtained from the web server of the Internet Participating Financial Institutions and thereafter communicated or disseminated in any manner to you or other parties; and
- (b) While all reasonable measures have been taken to ensure the accuracy and reliability of the information provided in an Electronic Prospectus, the accuracy and reliability of an Electronic Prospectus cannot be guaranteed as the internet is not a fully secured medium.

The Internet Participating Financial Institutions shall not be liable (whether in tort or contract or otherwise) for any loss, damage or costs, you or any other person may suffer or incur due to, as a consequence of or in connection with any inaccuracies, changes, alterations, deletions or omissions in respect of the information provided in an Electronic Prospectus which may arise in connection with or as a result of any fault or faults with web browsers or other relevant software, any fault or faults on your or any third party's personal computer, operating system or other software, viruses or other security threats, unauthorised access to information or systems in relation to the website of the internet participating financial institutions, and/or problems occurring during data transmission, which may result in inaccurate or incomplete copies of information being downloaded or displayed on your personal computer.

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INDICATIVE TIMETABLE

All terms used are defined under "Definitions" commencing from page vii.

The indicative timing of events leading to our Listing is set out below:

Events	Tentative date
Issuance of this Prospectus/Opening of Application	23 August 2019
Closing of Application	23 September 2019
Balloting of Application	26 September 2019
Allotment of IPO Shares to successful applicants	3 October 2019
Date of Listing	7 October 2019

In the event there is any change to the timetable, we will advertise the notice of changes in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All terms used are defined under "Definitions" commencing from page vii.

All references to "SDSG" and the "Company" in this Prospectus are to SDS Group Berhad (1241117-T). Unless otherwise stated, references to "Group" are to our Company and our subsidiaries taken as a whole; and references to "we", "us", "our" and "ourselves" are to our Company, and, save where the context otherwise requires, our subsidiaries. Unless the context otherwise requires, references to "Management" are to our Directors and key senior management as at the date of this Prospectus, and statements as to our beliefs, expectations, estimates and opinions are those of our Management.

The word "approximately" used in this Prospectus is to indicate that a number is not an exact one, but that number is usually rounded off to the nearest thousand or million or one decimal place (for percentages) or one sen (for currency). Any discrepancies in the tables included herein between the amounts listed and the totals thereof are due to rounding.

Certain abbreviations, acronyms and technical terms used are defined in the "Definitions" and "Technical Glossary" appearing after this section. Words denoting singular shall include plural and vice versa and words denoting the masculine gender shall, where applicable, include the feminine gender and vice versa. Reference to persons shall include companies and corporations.

All reference to dates and times are references to dates and times in Malaysia.

Any reference in this Prospectus to any enactment is a reference to that enactment as for the time being amended or re-enacted.

This Prospectus includes statistical data provided by our Management and various third parties and cites third party projections regarding growth and performance of the industry in which our Group operates. This data is taken or derived from information published by industry sources and from our internal data. In each such case, the source is stated in this Prospectus, where no source is stated, such information can be assumed to originate from us. In particular, certain information in this Prospectus is extracted or derived from report(s) prepared by the Independent Market Researcher. We believe that the statistical data and projections cited in this Prospectus are useful in helping you to understand the major trends in the industry in which we operate.

The information on our website, or any website directly or indirectly linked to such websites does not form part of this Prospectus.

The exchange rates below are applied in this Prospectus unless specified otherwise:

	FYE 2016	FYE 2017	FYE 2018	FYE 2019
RM to SGD 1				
Average rate	2.9175	3.0487	3.0646	3.0083
Closing rate	2.8976	3.1643	2.9494	3.0142

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FORWARD-LOOKING STATEMENTS

All terms used are defined under "Definitions" commencing from page vii.

This Prospectus contains forward-looking statements. All statements other than statements of historical facts included in this Prospectus, including, without limitation, those regarding our financial position, business strategies, plans and objectives for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, contingencies and other factors which may cause our actual results, our performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Such forward-looking statements reflect our Management's current view with respect to future events and are not a guarantee of future performance.

Forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "would", "could", "believe", "expect", "anticipate", "intend", "estimate", "aim", "plan", "forecast", "project" or similar expressions and include all statements that are not historical facts.

Such forward-looking statements include, without limitations, statements relating to:

- (a) Demand for our products and services;
- (b) Our business strategies;
- (c) Our future plans;
- (d) Our financial position;
- (e) Our future earnings, cash flows and liquidity; and
- (f) Our ability to pay future dividends.

Our actual results may differ materially from information contained in such forward-looking statements as a result of a number of factors beyond our control, including, without limitation:

- (a) The economic, political and investment environment in Malaysia and globally; and
- (b) Government policy, legislation or regulation.

Additional factors that could cause our actual results, performance or achievements to differ materially include, but are not limited to, those discussed in Section 9 - "Risk Factors" and Section 11 - "Financial Information". We cannot give any assurance that the forward-looking statements made in this Prospectus will be realised. Such forward-looking statements are made only as at the date of this Prospectus.

DEFINITIONS

The following terms in this Prospectus bear the same meanings as set out below unless otherwise defined or the context requires otherwise:

COMPANIES WITHIN OUR GROUP:

SDSG or Company	: SDS Group Berhad (1241117-T)
SDSG Group or Group	: SDSG and its subsidiaries, collectively
City Cake	: City Cake House Sdn Bhd (517331-P)
Daily Bakery	: Daily Bakery Sdn Bhd (190769-H)
SDS B&C	: SDS Bakery & Cafeteria Sdn Bhd (359313-D)
SDS Enterprise	: SDS Enterprise Sdn Bhd (1143371-K)
SDS Food	: SDS Food Manufacturing Sdn Bhd (243124-V)
SDS Top Baker	: SDS Top Baker Sdn Bhd (794534-T), formerly known as SDS Bakeries Sdn Bhd
Super Arrow	: Super Arrow Trading Pte Ltd (200819157G)

GENERAL:

ACE Market	: ACE Market of Bursa Securities
Acquisitions	: Comprising Acquisition of City Cake, Acquisition of SDS Food, Acquisition of SDS Enterprise and Acquisition of Super Arrow, collectively
Acquisition of City Cake	: Acquisition by SDS B&C of 51% equity interest in City Cake from SDS Tan Properties for a purchase consideration of RM445,200, satisfied by the issuance of 42,890 new shares in SDS Food at an issue price of approximately RM10.38 per share, which was completed on 4 July 2019
Acquisition of SDS Enterprise	: Acquisition by SDSG of the entire equity interest of SDS Enterprise from Tan Kee Jin and Tan Yon Haw for a purchase consideration of RM26,360, satisfied by the issuance of 263,600 new Shares at an issue price of RM0.10 per Share, which was completed on 5 July 2019
Acquisition of SDS Food	: Acquisition by SDSG of the entire equity interest of SDS Food from the SDS Food Vendors for a purchase consideration of RM28,994,890, satisfied by the issuance of 285,752,600 new Shares at an issue price of approximately RM0.10 per Share, which was completed on 5 July 2019
Acquisition of Super Arrow	: Acquisition by SDSG of the entire equity interest of Super Arrow from Tan Kim Seng, Tan Kim Chai, Tan Yon Haw and Tan Yong Thye for a purchase consideration of RM1,551,080, satisfied by the issuance of 15,510,800 new Shares at an issue price of RM0.10 per Share, which was completed on 5 July 2019

DEFINITIONS (Cont'd)

Act	: Companies Act, 2016
ADA	: Authorised Depository Agent
Adviser or Sponsor	: M&A Securities
Application	: Application for IPO Shares by way of Application Form, Electronic Share Application or Internet Share Application
Application Form(s)	: Printed application form(s) for the Application accompanying this Prospectus
ATM(s)	: Automated Teller Machine(s)
Board	: Board of Directors of SDSG
Bursa Depository or Depository	: Bursa Malaysia Depository Sdn Bhd (165570-W)
Bursa Securities	: Bursa Malaysia Securities Berhad (635998-W)
CAGR	: Compound annual growth rate
CCC	: Certificate of fitness for occupation or certificate of completion and compliance or its equivalent issued by the local authorities or principal submitting person (whichever is applicable)
CDS	: Central Depository System
CDS Account	: Account established by Bursa Depository for a depositor for the recording of securities and for dealing in such securities by the depositor
Closing Date	: The date adopted in this Prospectus as the last date for acceptance and receipt of Application
CMSA	: Capital Markets & Services Act 2007
Constitution	: Constitution of our Company
Depository Rules	: Rules of Bursa Depository and any appendices thereto as they may be amended from time to time
Director	: An executive director or a non-executive director within the meaning of Section 2 of the Act
EBIT	: Earnings before interest and tax
EBITDA	: Earnings before interest, tax, depreciation and amortisation
Electronic Prospectus	: Copy of this Prospectus that is issued, circulated or disseminated via the internet and/or an electronic storage medium
Electronic Share Application	: Application for IPO Shares through a Participating Financial Institution's ATM

DEFINITIONS (*Cont'd*)

EPS	: Earnings per share
FYE	: Financial year ended/ending 31 March, as the case may be
GP	: Gross profit
IFRS	: International Financial Reporting Standards
IMR or Protégé	: Protégé Associates Sdn Bhd (675767-H), our Independent Market Researcher
IMR Report	: Independent Market Research Report titled "Strategic Analysis of the Bakery Products Market with an Overview of the Restaurant and Cafeteria/Canteen Market in Malaysia" dated 24 July 2019
Internet Share Application	: Application for IPO Shares through an online share application service provided by Internet Participating Financial Institutions
Internet Participating Financial Institution(s)	: Participating financial institution(s) for Internet Share Application as listed in Section 15
Initial Public Offering or IPO	: Initial public offering comprising our Public Issue
IPO Price	: Issue price of RM0.23 per Share
ISO	: International Organisation for Standardisation
IPO Share(s)	: New Share(s) to be issued under our Public Issue
Issuing House	: Tricor Investor & Issuing House Services Sdn Bhd (11324-H)
JAKIM	: Jabatan Kemajuan Islam Malaysia
IT	: Information technology
LAT	: Loss after tax
LPD	: 24 July 2019, being the latest practicable date for ascertaining certain information contained in this Prospectus
Listing	: Listing of and quotation for our entire enlarged share capital of RM54,560,604 comprising 405,823,900 Shares on the ACE Market
Listing Requirements	: ACE Market Listing Requirements of Bursa Securities, as amended from time to time
Listing Scheme	: Comprising our Public Issue and Listing, collectively
M&A Securities	: M&A Securities Sdn Bhd (15017-H)
Malaysian Public	: Malaysian citizens and companies, co-operatives, societies and institutions incorporated or organised under the laws of Malaysia

DEFINITIONS (*Cont'd*)

Market Day(s)	: Any day(s) between Monday and Friday (both days inclusive) which is not a public holiday and on which Bursa Securities is open for the trading of securities
MFRS	: Malaysian Financial Reporting Standards
MITI	: Ministry of International Trade and Industry Malaysia
MyIPO	: Intellectual Property Corporation of Malaysia
NA	: Net assets
NBV	: Net book value
NL	: Net liabilities
OEM	: Original equipment manufacturer
Official List	: List specifying all securities which have been admitted for listing of Bursa Securities and not removed
Participating Financial Institution(s)	: Participating financial institution(s) for Electronic Share Application, as listed in Section 15
PAT	: Profit after tax
PBT	: Profit before tax
PE Multiple	: Price-to-earnings multiple
Pink Form Allocations	: Allocation of 23,132,000 IPO Shares under our Public Issue to our eligible Directors, employees and business associates/persons who have contributed to the success of our Group
Placement Agent	: M&A Securities
PPE	: Property, plant and equipment
Promoters	: Tan Kim Seng, Tan Kim Chai, Teou Chau Hoyk, Tan Yon Haw, Tan Yong Thye, Tan Yong Ping, Tan Yong Heng, Tan Kee Jin and SDS Tan Properties, collectively
Prospectus	: This prospectus dated 23 August 2019 in relation to our IPO
Public Issue	: Public issue of 104,296,800 IPO Shares at our IPO Price
QMS	: Quality management system
ROC	: Registrar of Companies
R&D	: Research and development
SC	: Securities Commission Malaysia

DEFINITIONS (*Cont'd*)

SDS Food Vendors	: Tan Kim Seng, Tan Kim Chai, Teou Chau Hoyk, Tan Yon Haw, Tan Yong Thye, Tan Yong Ping, Tan Yong Heng and SDS Tan Properties, collectively
SDS Tan Properties	: SDS Tan Properties Sdn Bhd (348948-T)
Share(s) or SDSG Share(s)	: Ordinary share(s) in SDSG
SI CDA or Depository Act	: Securities Industry (Central Depositories) Act, 1991
sq ft	: Square feet
Underwriter	: M&A Securities
Underwriting Agreement	: Underwriting agreement dated 18 July 2019 entered into between our Company and M&A Securities for the purpose of our IPO
UK	: United Kingdom
USA	: United States of America

CURRENCIES:

RM and sen	: Ringgit Malaysia and sen respectively
SGD	: Singapore Dollar
USD	: United States Dollar

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TECHNICAL GLOSSARY

This glossary contains an explanation of certain technical terms used throughout this Prospectus in connection with our business. The terminologies and their meanings may not correspond to the standard industry usage of these terms.

F&B	:	Food and beverage
hub-and-spoke model	:	A system of centralising a core operation at a designated premise that will serve or provide support to the needs of all its nearby related premises
point-of-sales	:	Place where sales are made. From a retail perspective, it means the place where a consumer completes a transaction, such as a check-out or payment counter
shelf life	:	The length of time for which a product remains fit for consumption

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TABLE OF CONTENTS

1.	CORPORATE DIRECTORY	1
2.	PROSPECTUS SUMMARY	
2.1	PRINCIPAL STATISTICS RELATING TO OUR IPO	5
2.2	GROUP STRUCTURE AND BUSINESS MODEL	5
2.3	COMPETITIVE STRENGTHS	7
2.4	BUSINESS STRATEGIES	7
2.5	RISK FACTORS.....	8
2.6	DIRECTORS AND KEY SENIOR MANAGEMENT.....	9
2.7	PROMOTERS AND SUBSTANTIAL SHAREHOLDERS	10
2.8	UTILISATION OF PROCEEDS	11
2.9	FINANCIAL AND OPERATIONAL HIGHLIGHTS	11
2.10	DIVIDEND POLICY.....	14
3.	APPROVALS AND CONDITIONS	
3.1	APPROVALS AND CONDITIONS	15
3.2	MORATORIUM ON OUR SHARES.....	16
4.	PARTICULARS OF OUR IPO	
4.1	OPENING AND CLOSING OF APPLICATION PERIOD.....	18
4.2	IMPORTANT TENTATIVE DATES	18
4.3	DETAILS OF OUR IPO	18
4.4	SHARE CAPITAL, CLASSES OF SHARES AND RANKINGS.....	21
4.5	OBJECTIVES OF OUR IPO	21
4.6	BASIS OF ARRIVING AT OUR IPO PRICE	22
4.7	TOTAL MARKET CAPITALISATION UPON LISTING.....	22
4.8	DILUTION.....	22
4.9	UTILISATION OF PROCEEDS.....	24
4.10	BROKERAGE FEES, PLACEMENT FEES AND UNDERWRITING COMMISSION.....	27
4.11	SALIENT TERMS OF THE UNDERWRITING AGREEMENT	28
4.12	TRADING AND SETTLEMENT IN SECONDARY MARKET	31
5.	INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT	
5.1	PROMOTERS AND SUBSTANTIAL SHAREHOLDERS	33
5.2	DIRECTORS	39
5.3	KEY SENIOR MANAGEMENT	54
5.4	BOARD PRACTICE	60
5.5	RELATIONSHIPS AND/OR ASSOCIATIONS	64
5.6	EXISTING OR PROPOSED SERVICE AGREEMENTS.....	64
5.7	DECLARATION FROM PROMOTERS, DIRECTORS AND KEY SENIOR MANAGEMENT	64
5.8	BENEFITS PAID OR INTENDED TO BE PAID.....	65
6.	GENERAL INFORMATION ON OUR GROUP	
6.1	INFORMATION ON SDSG	66
6.2	DETAILS OF OUR RESTRUCTURING	66
6.3	SUBSIDIARIES	73
6.4	MATERIAL CONTRACTS	74
6.5	TRADEMARKS	76
6.6	PROPERTY, PLANT AND EQUIPMENT	80
6.7	PUBLIC TAKE-OVERS	85

TABLE OF CONTENTS (Cont'd)

7.	BUSINESS OVERVIEW	
7.1	OUR HISTORY	86
7.2	DESCRIPTION OF OUR BUSINESS	87
7.3	BUSINESS PROCESSES	95
7.4	KEY ACHIEVEMENTS AND MILESTONES	104
7.5	PRINCIPAL MARKETS.....	104
7.6	SALES AND MARKETING	105
7.7	EMPLOYEES	109
7.8	MAJOR CUSTOMERS.....	111
7.9	MAJOR SUPPLIERS	114
7.10	SOURCES AND AVAILABILITY OF RAW MATERIALS.....	117
7.11	SEASONAL OR CYCLICAL EFFECTS.....	118
7.12	INTERRUPTION IN THE BUSINESS	118
7.13	TECHNOLOGIES USED OR TO BE USED.....	118
7.14	QUALITY CONTROL PROCEDURES OR QUALITY MANAGEMENT PROGRAMMES	119
7.15	RESEARCH AND DEVELOPMENT	120
7.16	COMPETITIVE STRENGTHS	121
7.17	BUSINESS STRATEGIES AND PROSPECTS	124
8.	EXECUTIVE SUMMARY OF THE STRATEGIC ANALYSIS OF THE BAKERY PRODUCTS MARKET WITH AN OVERVIEW OF THE RESTAURANT AND CAFETERIA/CANTEEN MARKET IN MALAYSIA	127
9.	RISK FACTORS	
9.1	RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS.....	137
9.2	RISKS RELATING TO OUR INDUSTRY	141
9.3	RISKS RELATING TO THE INVESTMENT IN OUR SHARES	143
9.4	OTHER RISKS	144
10.	RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST	
10.1	RELATED PARTY TRANSACTIONS AND OTHER TRANSACTIONS	145
10.2	CONFLICT OF INTEREST.....	156
11.	FINANCIAL INFORMATION	
11.1	HISTORICAL FINANCIAL INFORMATION.....	159
11.2	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	166
11.3	LIQUIDITY AND CAPITAL RESOURCES.....	195
11.4	BORROWINGS	197
11.5	TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES	202
11.6	MATERIAL CAPITAL COMMITMENTS, LITIGATION AND CONTINGENT LIABILITIES.....	202
11.7	KEY FINANCIAL INDICATORS.....	203
11.8	IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES.....	208
11.9	IMPACT OF INFLATION.....	208
11.10	IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES.....	208
11.11	DIRECTORS' DECLARATION ON OUR GROUP'S FINANCIAL PERFORMANCE.....	210
11.12	TREND INFORMATION.....	210
11.13	DIVIDEND POLICY.....	211
11.14	CAPITALISATION AND INDEBTEDNESS	212
12.	ACCOUNTANTS' REPORT	213
13.	REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION.....	330

TABLE OF CONTENTS (Cont'd)

14.	STATUTORY AND OTHER INFORMATION	
14.1	SHARE CAPITAL	353
14.2	CHANGES IN SHARE CAPITAL OF OUR SUBSIDIARIES.....	353
14.3	CONSTITUTION	356
14.4	GENERAL INFORMATION	362
14.5	REPATRIATION OF CAPITAL AND REMITTANCE OF PROFITS.....	362
14.6	CONSENTS	363
14.7	DOCUMENTS FOR INSPECTION	363
14.8	RESPONSIBILITY STATEMENTS.....	364
15.	SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE	
15.1	OPENING AND CLOSING OF APPLICATION PERIOD.....	365
15.2	METHODS OF APPLICATIONS.....	365
15.3	ELIGIBILITY.....	366
15.4	APPLICATION BY WAY OF APPLICATION FORMS	367
15.5	APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATIONS	368
15.6	APPLICATION BY WAY OF INTERNET SHARE APPLICATIONS	368
15.7	AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE.....	368
15.8	UNSUCCESSFUL / PARTIALLY SUCCESSFUL APPLICANTS.....	369
15.9	SUCCESSFUL APPLICANTS	370
15.10	ENQUIRIES.....	371
APPENDIX I	MAJOR APPROVALS, LICENSES AND PERMITS	372
APPENDIX II	PROPERTIES OWNED AND RENTED BY OUR GROUP	397

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1. CORPORATE DIRECTORY**BOARD OF DIRECTORS**

Name	Designation	Residential Address	Nationality/ Profession	Gender
Lim Pang Kiam	Independent Non-Executive Chairman	64, Jalan SS 22/27 Damansara Jaya 47400 Petaling Jaya Selangor	Malaysian/ Director	Male
Tan Kim Seng	Managing Director	2, Jalan Bukit Kempas 2/13 Taman Bukit Kempas 81200 Johor Bahru Johor	Malaysian/ Director	Male
Tan Kim Chai	Executive Director	26, Jalan Bukit Kempas 2/10 Taman Bukit Kempas 81200 Johor Bahru Johor	Malaysian/ Director	Male
Tan Yon Haw	Executive Director	E2-02-11, Nusavilla Jalan Jati 11 Taman Nusa Bestari Jaya 81300 Skudai Johor	Malaysian/ Director	Male
Tan Kee Jin	Executive Director	9, Jalan Setia Tropika 4/15 Taman Setia Tropika 81200 Johor Bahru Johor	Malaysian/ Director	Male
Phang Sze Fui	Independent Non-Executive Director	17, Jalan PP 4/12 Taman Putra Prima 47130 Puchong Selangor	Malaysian/ Accountant	Female
Azahar bin Baharudin	Independent Non-Executive Director	Lot 11253, Jalan Melor 2 Sungai Kantan 43000 Kajang Selangor	Malaysian/ Director	Male
Dato' Albert Ding Choo Earn	Independent Non-Executive Director	68A, Jalan Dedap 13 Taman Johor Jaya 81100 Johor Bahru Johor	Malaysian/ Lawyer	Male

1. CORPORATE DIRECTORY (Cont'd)**AUDIT COMMITTEE**

Name	Designation	Directorship
Phang Sze Fui	Chairwoman	Independent Non-Executive Director
Lim Pang Kiam	Member	Independent Non-Executive Chairman
Azahar bin Baharudin	Member	Independent Non-Executive Director
Dato' Albert Ding Choo Earn	Member	Independent Non-Executive Director

REMUNERATION COMMITTEE

Name	Designation	Directorship
Azahar bin Baharudin	Chairman	Independent Non-Executive Director
Lim Pang Kiam	Member	Independent Non-Executive Chairman
Dato' Albert Ding Choo Earn	Member	Independent Non-Executive Director

NOMINATING COMMITTEE

Name	Designation	Directorship
Lim Pang Kiam	Chairman	Independent Non-Executive Chairman
Azahar bin Baharudin	Member	Independent Non-Executive Director
Dato' Albert Ding Choo Earn	Member	Independent Non-Executive Director

RISK MANAGEMENT COMMITTEE

Name	Designation	Directorship
Dato' Albert Ding Choo Earn	Chairman	Independent Non-Executive Director
Lim Pang Kiam	Member	Independent Non-Executive Chairman
Phang Sze Fui	Member	Independent Non-Executive Director
Tan Kee Jin	Member	Executive Director

REGISTERED OFFICE : 5-9A, The Boulevard Offices
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur

Telephone number: +603-2282 6331

HEAD OFFICE : 5, Jalan Selatan 8 (Off Jalan Kempas Lama)
Kawasan Perusahaan Ringan Pulau
81200 Johor Bahru
Johor

Telephone number: +607-288 8305

EMAIL ADDRESS AND WEBSITE : Email address: info@sdsgroups.com
Websites: <http://sdsgroups.com> and
<http://www.topbaker.com.my>

1. CORPORATE DIRECTORY (*Cont'd*)

- COMPANY SECRETARIES** : Siew Suet Wei (MAICSA 7011254)
(Chartered Secretary, Fellow of the Institute of Chartered Secretaries and Administrators)
- Lim Yen Teng (SSM PC No. 201908000028)
(Master in Business Administration from Universiti Tunku Abdul Rahman)
- 5-9A, The Boulevard Offices
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
- Telephone number: +603-2282 6331
- AUDITORS AND REPORTING ACCOUNTANTS FOR OUR IPO** : Crowe Malaysia PLT (LLP0018817-LCA & AF1018)
(converted from a conventional partnership, Crowe Malaysia which was previously known as Crowe Horwath)
- E-2-3 Pusat Komersial Bayu Tasek
Persiaran Southkey 1, Kota Southkey
80150 Johor Bahru
Johor
- Telephone number: +607-288 6627
Partner's name: Fong Kiat Keong
Approved number: 03048/06/2021 J
(Chartered Accountant, Member of Malaysian Institute of Accountants and Member of CPA Australia)
- SOLICITORS FOR OUR IPO** : Lee & Tengku Azrina
Unit 13-01, Level 13
Menara Landmark
12, Jalan Ngee Heng
80000 Johor Bahru
Johor
- Telephone number: +607-223 8828
- INDEPENDENT MARKET RESEARCHER** : Protégé Associates Sdn Bhd (675767-H)
Suite C-06-06, Plaza Mont' Kiara
2, Jalan Kiara
Mont' Kiara
50480 Kuala Lumpur
- Telephone number: +603-6201 9301
Managing Director's name: Seow Cheow Seng
(Master in Business Administration from Charles Sturt University, Australia and Bachelor of Business majoring in Marketing from RMIT University, Australia)

1. CORPORATE DIRECTORY (*Cont'd*)

ADVISER, SPONSOR, UNDERWRITER AND PLACEMENT AGENT	: M&A Securities Sdn Bhd (15017-H) 45-11, The Boulevard Mid Valley City Lingkaran Syed Putra 59200 Kuala Lumpur Telephone number: +603-2284 2911
ISSUING HOUSE AND SHARE REGISTRAR	: Tricor Investor & Issuing House Services Sdn Bhd (11324-H) Unit 32-01, Level 32, Tower A Vertical Business Suite, Avenue 3 Bangsar South 8, Jalan Kerinchi 59200 Kuala Lumpur Telephone number: +603-2783 9299
LISTING SOUGHT	: ACE Market

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2. PROSPECTUS SUMMARY

THIS PROSPECTUS SUMMARY ONLY HIGHLIGHTS THE KEY INFORMATION FROM OTHER PARTS OF THIS PROSPECTUS. IT DOES NOT CONTAIN ALL THE INFORMATION THAT MAY BE IMPORTANT TO YOU. YOU SHOULD READ AND UNDERSTAND THE CONTENTS OF THE WHOLE PROSPECTUS PRIOR TO DECIDING ON WHETHER TO INVEST IN OUR SHARES.

2.1 PRINCIPAL STATISTICS RELATING TO OUR IPO

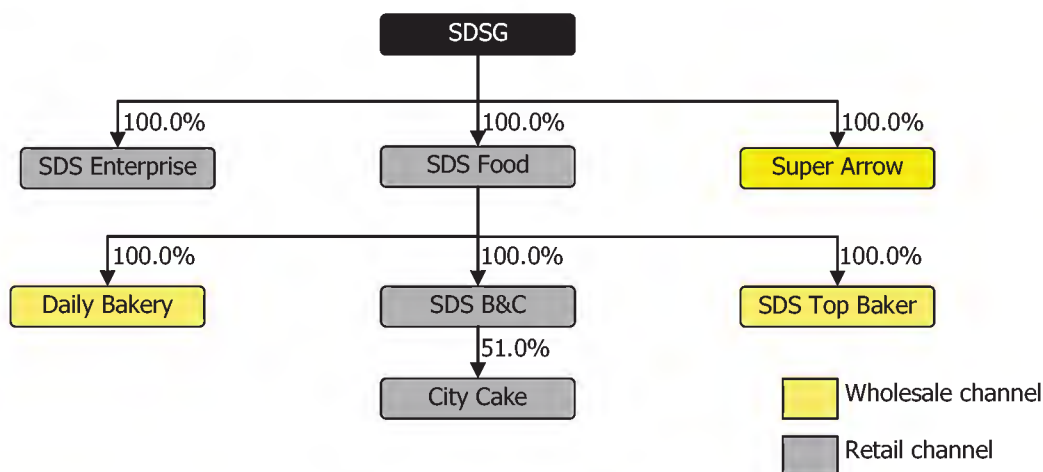
The following statistics relating to our IPO are derived from the full text of this Prospectus and should be read in conjunction with that text:

No. of Shares to be issued under the Public Issue	104,296,800
Enlarged no. of Shares upon Listing	405,823,900
IPO Price per Share	RM0.23
Market capitalisation (calculated based on our IPO Price and enlarged number of Shares upon Listing)	RM93,339,497

Further details on our IPO are set out in Section 4.3.

2.2 GROUP STRUCTURE AND BUSINESS MODEL

We were incorporated in Malaysia on 1 August 2017 under the Act as a public limited company under our present name. We were incorporated to facilitate the Listing and our principal activity is that of investment holding. As at LPD, our Group structure is set out below:

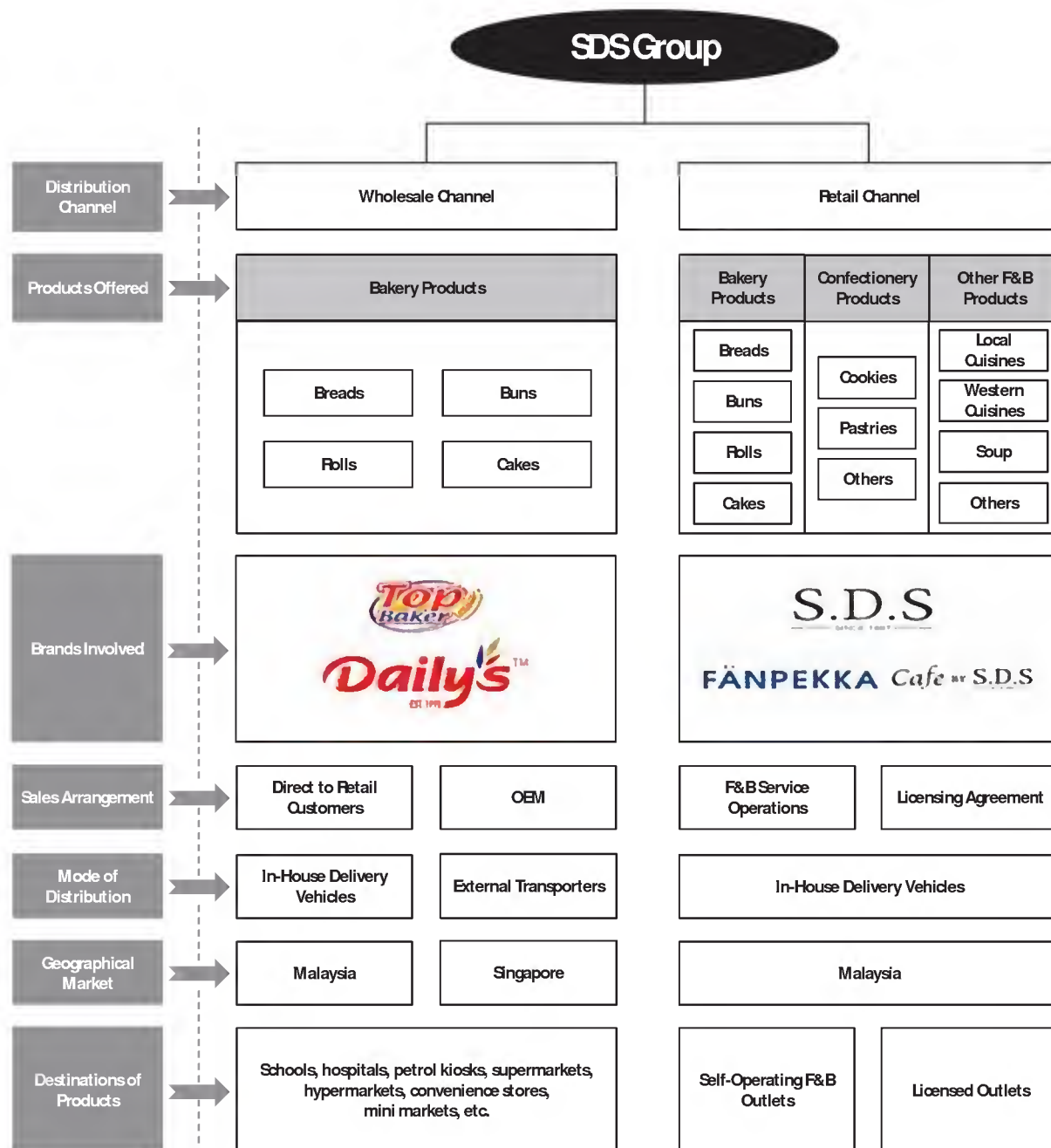


Our principal markets are Malaysia and Singapore. For FYE 2016 to 2019, we generated between 83.8% and 91.4% of our revenue in Malaysia with the remaining revenue mainly derived from Singapore.

2. PROSPECTUS SUMMARY (Cont'd)

Through our subsidiaries, our Group is principally involved in the manufacturing and distributing of bakery products as well as operating F&B outlets. Our products are sold via the wholesale and retail channels.

An overview of our Group's business model is depicted below:



Further details of our Group and our business model are set out in Sections 6 and 7.

2. PROSPECTUS SUMMARY (Cont'd)

2.3 COMPETITIVE STRENGTHS

Our Directors believe that our business sustainability and future growth is built on the following competitive strengths:

- (a) We have the capability to undertake extensive logistics activities to support the distribution of our wholesale bakery products with our sizeable fleet of delivery vehicles, in-house team of logistics personnel as well as various depots located across Peninsular Malaysia;
- (b) Our brands, 'SDS', 'Top Baker' and 'Daily's', have become recognised in the markets that we serve. Based on our revenue growth, we believe that we have generated goodwill over the years with consumers identifying us for the quality products carried under our brands;
- (c) We have an extensive portfolio of products and we review our product offering constantly to incorporate new flavours and international elements into our product design and menu;
- (d) Our central kitchen ensures uniformity in ingredients, presentation and quality of all products sold at our F&B outlets and enables us to achieve economies of scale;
- (e) Our fully automated sandwich loaf production line in Seremban minimises contamination and provides uniformity in terms of quality and size; and
- (f) We have a strong and experienced key senior management team, which is led by our Managing Director, Tan Kim Seng, and Executive Director, Tan Kim Chai who each has more than 30 years of working experience in the bakery industry.

Further details of our competitive strengths are set out in Section 7.16.

2.4 BUSINESS STRATEGIES

Our business objectives are to maintain sustainable growth in our business and create long-term shareholder value. To achieve our business objectives, we will implement the following business strategies over a period of 24 months from the date of our Listing:

- (a) To expand our local geographical footprints outside of Johor, particularly to the central and northern region of Peninsular Malaysia;
- (b) To collaborate with established food delivery service providers to provide door-step delivery of our F&B products to consumers; and
- (c) To venture into the franchising business model to expand our F&B outlets across Peninsular Malaysia.

Further details of our business strategies are set out in Section 7.17.

2. PROSPECTUS SUMMARY (*Cont'd*)

2.5 RISK FACTORS

An investment in our Shares is subject to risks. Investors should read and understand all the risk factors before making a decision to invest in our Shares. A summary of some of the more important risks is set out below. A more detailed description of the risks associated with our Group and IPO can be found in Section 9.

- (a) As of 31 March 2016, 2017, 2018 and 2019, our net current liabilities position stood at RM12.0 million, RM27.2 million, RM21.7 million and RM14.9 million respectively. Moving forward, we may continue to be in a net current liabilities position. Our PAT margin for FYE 2016 to FYE 2019 are 4.1%, 4.5%, 3.4% and 4.2% respectively and our gearing ratio stood at 1.3 times as at 31 March 2019. Our net current liabilities position coupled with our gearing position, may impair our ability to expand our business and/or declare dividends. In addition, any deterioration in PAT margin may worsen our net current liabilities position;
- (b) We are exposed to high borrowings and financial risks;
- (c) Our expansion will result in higher operating costs as well as depreciation charges, and we cannot guarantee that our business will grow as planned;
- (d) We face risk of food contamination. Any contamination in our products may result in it being unsafe for consumption and will have an adverse impact on our reputation and brand name;
- (e) Our business is dependent on prompt delivery and transportation of our products to ensure product freshness. Delivery disruptions caused by adverse weather conditions and natural disasters could lead to delayed or lost deliveries and may result in interruptions to our business;
- (f) Our business may be affected by changes in consumer preference, disposable income, spending and perception. Such consumer behaviour may change over time and there is no guarantee that the market will continue to be receptive to our brands and products;
- (g) Prolonged disruptions in our manufacturing plants and F&B outlets such as fire, power failure, floods or interruptions in water supply, which are beyond our control could materially and adversely affect us;
- (h) We are dependent on the availability, quality and price fluctuations of raw materials such as food ingredients and packaging materials. Any prolonged disruption in the supply of raw materials or raw materials that do not meet our quality requirements or significant increase in raw materials cost may have a material and adverse effect on us;
- (i) Our proprietary brand names such as 'Top Baker', 'Daily's' and 'SDS' differentiate us from our competitors. Failure to protect or safeguard our intellectual property rights could materially adversely affect the value of our brands and businesses;
- (j) We are required to obtain and maintain a number of licences and permits from the relevant authorities to operate our business. Our licences and permits may be suspended or revoked if we are unable to comply with all regulations or conditions of our licenses and permits; and

2. PROSPECTUS SUMMARY (Cont'd)

- (k) Our operations at the manufacturing plants are dependent on the continued supply of foreign labour. Any substantial shortages in the supply of foreign workers or restrictions on foreign workers usage may disrupt our operations.

2.6 DIRECTORS AND KEY SENIOR MANAGEMENT

Our Directors and key senior management are as follows:

Name	Designation
Directors	
Lim Pang Kiam	Independent Non-Executive Chairman
Tan Kim Seng	Managing Director
Tan Kim Chai	Executive Director
Tan Yon Haw	Executive Director
Tan Kee Jin	Executive Director
Phang Sze Fui	Independent Non-Executive Director
Azahar bin Baharudin	Independent Non-Executive Director
Dato' Albert Ding Choo Earn	Independent Non-Executive Director
Key senior management	
Tan Kee Meng	Chief Financial Officer
Chi On Kang	Head of Corporate Planning and Marketing
Thong Poh Loong	Production Manager
Tan Siau Ling	Project Manager

Further details of the aforementioned persons are set out in Section 5.

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2. PROSPECTUS SUMMARY (Cont'd)

2.7 PROMOTERS AND SUBSTANTIAL SHAREHOLDERS

The shareholdings of our Promoters and substantial shareholders in our Company before and after our IPO are set out below:

Name	Country of incorporation / Nationality	Before IPO ⁽¹⁾			After IPO ⁽²⁾⁽³⁾		
		Direct		Indirect	Direct		Indirect
		No. of Shares	%		No. of Shares	%	
Tan Kim Seng	Malaysian	99,040,780	32.9	(4)4,451,620	99,040,780	1.5	(6)4,701,620
Tan Kim Chai	Malaysian	98,885,580	32.8	(4)4,451,620	98,885,580	1.5	(4)4,451,620
Teou Chau Hoyk ⁽⁸⁾	Malaysian	18,753,470	6.2	-	18,753,470	-	-
Tan Yon Haw	Malaysian	21,366,970	7.1	-	21,366,970	-	-
Tan Yong Thye	Malaysian	21,390,160	7.1	-	21,390,160	-	-
Tan Yong Ping ⁽⁸⁾	Malaysian	18,753,360	6.2	-	18,753,360	-	-
Tan Yong Heng ⁽⁸⁾	Malaysian	18,753,360	6.2	-	18,753,360	-	-
Tan Kee Jin	Malaysian	131,800	(5)-	-	(7)1,131,800	-	-
SDS Tan Properties	Malaysia	4,451,620	1.5	-	4,451,620	-	-

Notes:

- (1) After completion of Acquisitions; and transfer of 50 subscriber shares each in SDSG to Tan Kim Seng and Tan Kim Chai respectively; but before Public Issue.
- (2) After Public Issue.
- (3) Based on the enlarged share capital of 405,823,900 Shares after IPO.
- (4) Deemed interested by virtue of their shareholdings in SDS Tan Properties pursuant to Section 8 of the Act.
- (5) Represents less than 0.1%.
- (6) Deemed interested by virtue of his shareholdings in SDS Tan Properties pursuant to Section 8 of the Act and the shareholdings of his son, Tan Kee Meng, pursuant to Section 59(1)(c) of the Act (assuming that he will fully subscribe for his Pink Form Allocations).
- (7) Assuming that he will fully subscribe for his entitlement under the Pink Form Allocations.
- (8) Ceased to be substantial shareholder after IPO.

Further details of the aforementioned persons are set out in Section 5.

2. PROSPECTUS SUMMARY (Cont'd)

Our Promoters' entire shareholdings after IPO will be held under moratorium for 6 months from the date of Listing. Thereafter, our Promoters' shareholdings amounting to 45% of our share capital will remain under moratorium for another 6 months. Our Promoters may sell, transfer or assign up to a maximum of one-third per annum (on a straight line basis) of their shares held under moratorium upon expiry of the second 6-month period.

Further details on the moratorium on our Shares are set out in Section 3.2.

2.8 UTILISATION OF PROCEEDS

The gross proceeds from the Public Issue of approximately RM24.0 million shall accrue entirely to us and will be utilised in the following manner:

Utilisation of proceeds	⁽¹⁾ Estimated timeframe for utilisation	RM'000	%
Capital expenditure	24 months	6,000	25.0
Repayment of bank borrowings	6 months	7,000	29.2
General working capital	12 months	7,788	32.5
Listing expenses	Immediately	3,200	13.3
Total		23,988	100.0

Note:

⁽¹⁾ From the date of listing of our Shares.

There is no minimum subscription to be raised from our IPO.

Detailed information on our utilisation of proceeds is set out in Section 4.9.

2.9 FINANCIAL AND OPERATIONAL HIGHLIGHTS

The selected financial and operational highlights included in this section are not intended to predict our Group's financial position, results and cash flows.

2.9.1 Combined statements of profit or loss and other comprehensive income

The following table sets out the financial highlights based on our combined statements of profit or loss and other comprehensive income for FYE 2016 to 2019:

	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Revenue	93,982	139,333	174,201	187,129
GP	30,072	42,508	52,770	57,100
PBT from continuing operations	4,705	7,965	6,633	9,302
PAT from continuing operations	3,850	6,151	5,739	7,695
attributable to owners of the Company				
PAT	3,390	6,319	5,890	7,854
GP margin (%) ⁽¹⁾	32.0	30.5	30.3	30.5
PBT margin (%) ⁽¹⁾	5.0	5.7	3.8	5.0
PAT margin (%) ⁽¹⁾	4.1	4.5	3.4	4.2
EPS (sen) ⁽¹⁾⁽²⁾	1.3	2.0	1.9	2.6
Diluted EPS (sen) ⁽¹⁾⁽³⁾	0.9	1.5	1.4	1.9

2. PROSPECTUS SUMMARY (Cont'd)**Notes:**

- (1) Based on continuing operations.
- (2) Calculated based on PAT from continuing operations attributable to owners of the Company divided by the share capital of 301,527,100 Shares before IPO.
- (3) Calculated based on PAT from continuing operations attributable to owners of the Company divided by the enlarged share capital of 405,823,900 Shares after IPO.

Further details on the financial information are set out in Sections 11 and 12. There were no exceptional or extraordinary items during the financial years under review. Our audited financial statements for the financial years under review were not subject to any audit qualifications.

2.9.2 Pro forma combined statements of financial position

The following table sets out a summary of the pro forma combined statements of financial position of our Group based on our audited statements of financial position as at 31 March 2019 to show the effects of the Acquisitions and Public Issue. It should be read in conjunction with the pro forma combined statements of financial position in Section 13.

	SDSG	I	II	III
	As at 31 March 2019	After Acquisitions	After I and Public Issue	After II and utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
TOTAL ASSETS				
Total non-current assets	-	96,818	96,818	102,818
Total current assets	30	27,490	51,478	35,278
	30	124,308	148,296	138,096
EQUITY AND LIABILITIES				
Share capital	(1)	30,573	54,561	53,373
Merger deficit	-	(27,760)	(27,760)	(27,760)
Translation reserve	-	454	454	454
(Accumulated Loss)/ Retained profits	(12)	34,955	34,955	32,943
Equity attributable to owners of the Company	(12)	38,222	62,210	59,010
Non-controlling interests	-	514	514	514
Total equity	(12)	38,736	62,724	59,524
TOTAL LIABILITIES				
Total non-current liabilities	-	43,222	43,222	38,562
Total current liabilities	42	42,350	42,350	40,010
	42	85,572	85,572	78,572
TOTAL EQUITY AND LIABILITIES	30	124,308	148,296	138,096
NA per Share (RM)	(0.12)	0.13	0.15	0.15

Note:

- (1) Represents RM10 only.

2. PROSPECTUS SUMMARY *(Cont'd)*

2.9.3 Key financial indicators

The key financial indicators of our Group for FYE 2016 to 2019 are as follows:

	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
Trade receivable turnover (days)	50	45	55	60
Trade payable turnover (days)	60	66	70	71
Inventory turnover (days)	19	16	14	14
Current ratio (times)	0.6	0.5	0.6	0.6
Gearing ratio (times)	1.2	2.0	1.9	1.3
Net current liabilities (RM'000)	11,979	27,217	21,682	14,860

We recorded net current liabilities of RM12.0 million, RM27.2 million, RM21.7 million and RM14.9 million for the FYE 2016 to FYE 2019 respectively. Such net current liabilities position coupled with our gearing ratio may impair our ability to obtain further external borrowings. Our PAT margin for FYE 2016 to FYE 2019 was 4.1%, 4.5%, 3.4% and 4.2% respectively, any deterioration in PAT margin may worsen our net current liabilities position.

We recorded net current liabilities during the past 4 financial years mainly due to the use of cash generated from operations instead of external long term funds, to finance our capital expenditure. We are able to finance our capital expenditure through cash generated from operations as a major portion of our sales are cash basis while the normal credit terms granted to us by our trade creditors ranges from 30 to 120 days. For FYE 2016 to 2019, such capital expenditure mainly relates to delivery vehicles, plant machinery and factory equipment and the acquisition of Daily Bakery.

At this juncture, despite our net current liabilities position, we do not foresee any circumstances which may materially affect our working capital and liquidity. We expect to continue our cash sales to customers and credit terms from our trade creditors are also expected to remain. Moving forward, we may continue to use our cash generated from operations to finance our capital expenditure and as such, may continue to be in net current liabilities position.

Further details on the key financial indicators are set out in Section 11.7.

2.9.4 Operational highlights

As at LPD, we distribute our bakery products to over 10,000 customers under our wholesale channel which includes supermarkets, hypermarkets, convenience stores, mini markets etc. Our bakery products are widely distributed in Johor, Pahang, Terengganu, Kelantan, Perak, Negeri Sembilan, Klang Valley, Melaka and Singapore.

For our retail channel, we operate 33 F&B outlets in Johor. The F&B outlets comprise 18 bakery outlets, 5 cafés and 10 bakery-cum-café outlets.

The wholesale channel remains our primary market. For FYE 2016 to 2019, between 67.4% and 74.5% of our revenue (before inter-segment adjustment) were derived from this channel.

On a geographical basis, Malaysia is the biggest market contributing between 83.8% and 91.4% of our Group's total revenue for FYE 2016 to 2019. The remaining of our revenue was mainly derived from Singapore.

2. PROSPECTUS SUMMARY (*Cont'd*)

2.10 DIVIDEND POLICY

Our Company presently does not have any formal dividend policy. Upon Listing, our Board intends to adopt a dividend policy to allow our shareholders to participate in the profits of our Group while ensuring sufficient funds for our continuing operations and future growth.

Further details of our dividend policy and dividend restriction are set out in Section 11.13.

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3. APPROVALS AND CONDITIONS**3.1 APPROVALS AND CONDITIONS****3.1.1 Bursa Securities approval**

Bursa Securities had, vide its letter dated 11 February 2019, approved our admission to the Official List of the ACE Market and the listing of and quotation for our entire enlarged share capital on the ACE Market. The approval from Bursa Securities is subject to the following conditions:

No.	Details of conditions imposed	Status of compliance	
(a)	Submission of the following information with respect to the moratorium on the shareholdings of the Promoters to Bursa Depository:	Complied	
	(i) Name of shareholders;		
	(ii) Number of shares; and		
	(iii) Date of expiry of the moratorium for each block of shares;		
(b)	Approvals from other relevant authorities have been obtained for implementation of the Listing;	Complied	
(c)	Make the relevant announcements pursuant to Paragraphs 8.1 and 8.2 of Guidance Note 15 of the Listing Requirements;	To be complied	
(d)	Furnish Bursa Securities with a copy of the schedule of distribution showing compliance with the share spread requirements based on the entire issued share capital of SDSG on the first day of Listing;	To be complied	
(e)	Any director of the Company who has not attended the Mandatory Accreditation Programme must do so prior to the Listing;	Complied	
(f)	In relation to the public offering to be undertaken by SDSG, to announce at least 2 Market Days prior to the Listing date, the result of the offering including the following:	To be complied	
	(i) Level of subscription of public balloting and placement;		
	(ii) Basis of allotment/allocation;		
	(iii) A table showing the distribution for placement tranche, in the format prescribed; and		
	(iv) Disclosure of placees who become substantial shareholders of SDSG arising from the public offering, if any,		
	and to ensure that the overall distribution of SDSG's securities is properly carried out to mitigate any disorderly trading in the secondary market; and		
(g)	SDSG/M&A Securities to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the admission to the Official List of the ACE Market.	To be complied	

3. APPROVALS AND CONDITIONS (*Cont'd*)

On 23 April 2019, Bursa Securities has granted us an extension of time up to 10 November 2019 to complete our Listing.

3.1.2 SC approval

Our Listing is an exempt transaction under Section 212(8) of the CMSA and is therefore not subject to the approval of the SC.

The SC had, vide its letter dated 18 February 2019, approved the resultant equity structure of SDSG under the equity requirement for public listed companies pursuant to our Listing. The approval from SC is subject to the following conditions:

No.	Details of conditions imposed
(a)	SDSG to allocate the difference between the prescribed equity requirement of 12.5% of its enlarged issued share capital and the equity interests of Bumiputera investors upon Listing (allocated via balloting pursuant to the public issue), to Bumiputera investors to be approved by MITI within 1 year after achieving the profit requirement for companies seeking listing on the Main Market of Bursa Securities or 5 years after being listed on the ACE Market, whichever is earlier ("Compliance Date");
(b)	SDSG to submit to the SC, a proposal to comply with the Bumiputera equity condition at least 6 months prior to the Compliance Date; and
(c)	M&A Securities/ SDSG to submit to the SC its equity structure upon completion of the Listing.

3.2 MORATORIUM ON OUR SHARES

In accordance with Rule 3.19 of the Listing Requirements and pursuant to the conditions imposed under the approval letter by Bursa Securities, a moratorium will be imposed on the sale, transfer or assignment of those SDSG Shares held by our Promoters as follows:

- (a) The moratorium applies to the entire shareholdings of our Promoters for a period of 6 months from the date of our admission to the ACE Market ("First 6-Month Moratorium");
- (b) Upon the expiry of the First 6-Month Moratorium, our Company must ensure that our Promoters' aggregate shareholdings amounting to 45% of our nominal ordinary share capital remain under moratorium for another period of 6 months ("Second 6-Month Moratorium"); and
- (c) On the expiry of the Second 6-Month Moratorium, our Promoters may sell, transfer or assign up to a maximum of one-third (1/3) per annum (on a straight line basis) of those SDSG Shares held under moratorium.

3. APPROVALS AND CONDITIONS (Cont'd)

Details of our Promoters and their SDSG Shares which will be subject to the abovesaid moratorium, are set out below:

	Moratorium shares during the First 6-Month Moratorium		Moratorium shares during the Second 6-Month Moratorium	
	No. of SDSG Shares	(1)%	No. of SDSG Shares	(1)%
Tan Kim Seng	99,040,780	24.4	59,786,055	14.7
Tan Kim Chai	98,885,580	24.4	59,692,369	14.7
Teou Chau Hoyk	18,753,470	4.6	11,320,549	2.8
Tan Yon Haw	21,366,970	5.3	12,898,191	3.2
Tan Yong Thye	21,390,160	5.3	12,912,189	3.2
Tan Yong Ping	18,753,360	4.6	11,320,483	2.8
Tan Yong Heng	18,753,360	4.6	11,320,483	2.8
Tan Kee Jin	⁽²⁾ 1,131,800	0.3	⁽²⁾ 683,212	0.2
SDS Tan Properties	4,451,620	1.1	2,687,224	0.6
Total	302,527,100	74.6	182,620,755	45.0

Notes:

(1) Based on the enlarged share capital of 405,823,900 Shares after IPO.

(2) Assuming that he will fully subscribe for his entitlement under the Pink Form Allocations.

The moratorium has been fully accepted by the Promoters, who have provided written undertakings that they will not sell, transfer or assign their shareholdings under moratorium during the moratorium period.

The moratorium restrictions are specifically endorsed on the share certificates representing the Shares under moratorium held by the Promoters to ensure that our Share Registrar does not register any transfer that contravenes with such restrictions.

Separately, the shareholders of SDS Tan Properties, namely, Tan Kim Seng, Tan Kim Chai, Teou Chau Hoyk, Tan Yon Haw, Tan Yong Thye, Tan Yong Ping and Tan Yong Heng have undertaken not to sell, transfer or assign their shareholdings in SDS Tan Properties during the moratorium period.

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4. PARTICULARS OF OUR IPO

4.1 OPENING AND CLOSING OF APPLICATION PERIOD

The period for Application will open at 10.00 a.m. on 23 August 2019 and will remain open until 5.00 p.m. on 23 September 2019. **LATE APPLICATIONS WILL NOT BE ACCEPTED.**

4.2 IMPORTANT TENTATIVE DATES

Events	Tentative date
Issuance of this Prospectus/Opening of Application	23 August 2019
Closing of Application	23 September 2019
Balloting of Application	26 September 2019
Allotment of our IPO Shares to successful applicants	3 October 2019
Date of Listing	7 October 2019

In the event there is any change to the timetable, we will advertise the notice of changes in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia.

4.3 DETAILS OF OUR IPO

4.3.1 Listing Scheme

(a) Public Issue

A total of 104,296,800 IPO Shares representing approximately 25.7% of our enlarged share capital are offered at our IPO Price. The IPO Shares shall be allocated in the following manner:

(i) Malaysian Public

20,291,200 Shares, representing 5.0% of our enlarged share capital, will be made available for application by the Malaysian Public, to be allocated via balloting process as follows:

(aa) 10,145,600 Shares made available to public investors; and

(bb) 10,145,600 Shares made available to Bumiputera public investors.

(ii) Eligible Directors, employees and business associates/ persons who have contributed to the success of our Group

23,132,000 Shares, representing 5.7% of our enlarged share capital, will be reserved for our eligible Directors, employees and business associates/persons who have contributed to the success of our Group under the Pink Form Allocations. Further details of our Pink Form Allocations are set out in Section 4.3.2.

(iii) Private placement to selected investors

60,873,600 Shares, representing 15.0% of our enlarged share capital, have been reserved for private placement to selected investors.

Upon completion of our Public Issue, our share capital will increase from RM30,572,340 comprising 301,527,100 Shares to RM54,560,604 comprising 405,823,900 Shares.

4. PARTICULARS OF OUR IPO (Cont'd)

The basis of allocation for the IPO Shares shall take into account the distribution of the IPO Shares to a reasonable number of applicants to broaden our Company's shareholding base to meet the public spread requirements, and to establish a liquid market for our Shares. There is no over-allotment or 'greenshoe' option that will result in an increase in the number of our IPO Shares.

Our Public Issue is subject to the terms and conditions of this Prospectus.

(b) Listing

Upon completion of our IPO, our Company's entire enlarged share capital of RM54,560,604 comprising 405,823,900 Shares shall be listed on the ACE Market.

4.3.2 Pink Form Allocations

We have allocated 23,132,000 IPO Shares to our eligible Directors, employees and business associates/persons who have contributed to the success of our Group under the Pink Form Allocations as follows:

Category	No. of eligible persons/ corporations	Aggregate no. of IPO Shares allocated
Eligible Directors	5	2,000,000
Eligible employees	192	3,636,000
Business associates/persons who have contributed to the success of our Group	105	17,496,000
	302	23,132,000

The criteria for allocation to our eligible Directors are based on amongst others, the length of their service and their anticipated contributions to our Group.

The criteria of allocation to our eligible employees (as approved by our Board) are based on, *inter-alia*, the following factors:

- (a) The employee must be at least 18 years of age;
- (b) The employee must have his/her employment confirmed in writing; and
- (c) The employees' seniority, position, length of service and contribution to our Group.

The number of IPO Shares to be allotted to those business associates/persons who have contributed to the success of our Group shall be based on amongst others, the nature and terms of their business relationship with us, length of their relationship with us and the level of contribution and support to our Group. Business associates/persons who have contributed to the success of our Group include business contacts, suppliers and customers. Business associates/ persons who have contributed to the success of our Group who are our related parties such as Regina Cake House and Sin Lee Hiang Cake House will not be entitled to the Pink Form Allocations.

Save for Tan Kee Jin, our other Executive Directors have opted out of the Pink Form Allocations. Details of the proposed allocation to our remaining Directors and key senior management are as follows:

4. PARTICULARS OF OUR IPO (Cont'd)

Name	Designation	No. of IPO Shares allocated
Directors		
Lim Pang Kiam	Independent Non-Executive Chairman	250,000
Tan Kee Jin	Executive Director	1,000,000
Phang Sze Fui	Independent Non-Executive Director	250,000
Azahar bin Baharudin	Independent Non-Executive Director	250,000
Dato' Albert Ding Choo Earn	Independent Non-Executive Director	250,000
Key senior management		
Tan Kee Meng	Chief Financial Officer	250,000
Chi On Kang	Head of Corporate Planning and Marketing	250,000
Thong Poh Loong	Production Manager	45,000
Tan Siau Ling	Project Manager	90,000
		2,635,000

Pink Form Allocations which are not accepted by certain eligible Directors, employees and business associates/persons who have contributed to the success of our Group will be re-allocated to the other eligible Directors mentioned in the table above, employees and business associates/persons who have contributed to the success of our Group at the discretion of our Board.

4.3.3 Underwriting arrangement

Our Underwriter will underwrite 43,423,200 IPO Shares made available for application by the Malaysian Public and Pink Form Allocations. The balance 60,873,600 IPO Shares available for application by selected investors will not be underwritten and have been placed out by our Placement Agent.

Any of our IPO Shares which are not subscribed for by the Malaysian Public or Pink Form Allocations will be made available to selected investors via private placement. If all of our IPO Shares offered to the Malaysian Public are oversubscribed, shares not subscribed for under the Pink Form Allocations, if any, will be made available for application by the Malaysian Public. Thereafter, any remaining IPO Shares that are not subscribed for will be subscribed by our Underwriter based on the terms of the Underwriting Agreement.

4.3.4 Minimum and over-subscription

There is no minimum subscription to be raised from our IPO. However, in order to comply with the public spread requirements of Bursa Securities, the minimum subscription in terms of the number of IPO Shares will be the number of IPO Shares required to be held by public shareholders to comply with the public spread requirements as set out in the Listing Requirements or as approved by Bursa Securities.

In the event of an over-subscription, acceptance of Applications by the Malaysian Public shall be subject to ballot to be conducted in a manner approved by our Board. Our Board will ensure that any excess IPO Shares will be allocated on a fair and equitable manner.

4. PARTICULARS OF OUR IPO (Cont'd)**4.4 SHARE CAPITAL, CLASSES OF SHARES AND RANKINGS**

Upon completion of our IPO, our share capital would be as follows:

Details	No. of Shares	RM
Share capital		
As at the date of this Prospectus	301,527,100	30,572,340
To be issued under our Public Issue	104,296,800	23,988,264
Enlarged share capital upon our Listing	405,823,900	54,560,604

As at the date of this Prospectus, we have only one class of shares, being ordinary shares, all of which rank *pari passu* amongst one another.

The IPO Shares will, upon allotment and issue, rank *pari passu* in all respects with our existing ordinary shares including voting rights and will be entitled to all rights and dividends and other distributions that may be declared subsequent to the date of allotment of the IPO Shares.

Subject to any special rights attaching to any Shares which may be issued by us in the future, our shareholders shall, in proportion to the amount paid-up on the Shares held by them, be entitled to share in the whole of the profits paid out by us as dividends and other distributions and any surplus in the event of the liquidation of our Group, in accordance with our Constitution.

Each of our shareholders shall be entitled to vote at any of our general meeting in person, or by proxy or by attorney or by other duly authorised representative. Every shareholder present in person or by proxy or by attorney or other duly authorised representative shall have 1 vote for each ordinary share held.

4.5 OBJECTIVES OF OUR IPO

The objectives of our IPO are as follows:

- (a) To enable our Group to raise funds for the purposes specified in Section 4.9;
- (b) To enable us to tap into the equity capital market for future fund raising and to provide us the financial flexibility to pursue future growth opportunities as and when they arise;
- (c) To increase the brand visibility of 'Top Baker' and 'Daily's' in the bakery industry as well as 'SDS' in the F&B industry in Malaysia;
- (d) To provide an opportunity for the Malaysian Public, our eligible Directors, our employees and business associates/persons who have contributed to the success of our Group to participate in our equity; and
- (e) To gain recognition through our listing status which will enhance our Group's reputation to widen its market reach and customer base, and to retain and attract new, skilled employees from the bakery and F&B industries.

4. PARTICULARS OF OUR IPO (Cont'd)**4.6 BASIS OF ARRIVING AT OUR IPO PRICE**

Our IPO Price was determined and agreed upon by us and M&A Securities, as our Adviser, Sponsor, Underwriter and Placement Agent, after taking into consideration the following factors:

- (a) The PE Multiple of approximately 12.1 times based on our pro forma EPS of 1.9 sen for FYE 2019 calculated based on our combined PAT from continuing operations attributable to owners of the Company of RM7.7 million and enlarged number of issued Shares of 405,823,900 Shares upon Listing;
- (b) Our pro forma combined NA per Share as at 31 March 2019 after IPO of RM0.15 based on our pro forma audited combined NA as at 31 March 2019 of RM59.5 million and enlarged share capital of 405,823,900 Shares upon Listing;
- (c) Our historical financial track record for FYE 2016 to 2019 are summarised as follows:

	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Revenue	93,982	139,333	174,201	187,129
GP	30,072	42,508	52,770	57,100
PAT from continuing operations attributable to owners of the Company	3,850	6,151	5,739	7,695

- (d) Our competitive strengths as set out in Section 7.16; and
- (e) Our Group's business strategies and prospects as further described in Section 7.17.

You should note that our market price upon Listing is subject to the vagaries of market forces and other uncertainties that may affect the price of our Shares. You should form your own views on the valuation of our IPO Shares before deciding to invest in them. You are reminded to carefully consider the risk factors as set out in Section 9 before deciding to invest in our Shares.

4.7 TOTAL MARKET CAPITALISATION UPON LISTING

Based on our IPO Price and enlarged share capital of 405,823,900 Shares upon Listing, our total market capitalisation is estimated to be RM93.3 million upon Listing.

4.8 DILUTION

Dilution is the amount by which our IPO Price exceeds the pro forma combined NA per Share immediately after our IPO.

Our pro forma combined NA per Share as at 31 March 2019 after the Acquisitions is RM0.13. After giving effect to the Public Issue including adjustments for the estimated listing expenses, our pro forma combined NA per Share as at 31 March 2019 is RM0.15.

This represents an immediate increase in the pro forma combined NA per Share to our existing shareholders of RM0.02, and an immediate dilution in the pro forma combined NA per Share of RM0.08 to our new public investors. The following table illustrates such dilution on a per Share basis:

4. PARTICULARS OF OUR IPO (Cont'd)

	RM
Pro forma combined NA per Share as at 31 March 2019 after taking into account the Acquisitions	0.13
Pro forma combined NA per Share as at 31 March 2019 after taking into account the Acquisitions and Public Issue	0.15
Increase in pro forma combined NA per Share attributable to existing shareholders	0.02
IPO Price	0.23
Pro forma combined NA per Share as at 31 March 2019 after taking into account the Acquisitions and Public Issue	0.15
Dilution in pro forma combined NA per Share to our new public investors	0.08
Dilution in pro forma combined NA per Share as a percentage of IPO Price	34.8%

Further details of our pro forma combined NA per Share as at 31 March 2019 is set out in Section 13.

The following table shows the average effective cost per Share paid by our existing shareholders for Shares acquired by them since our incorporation and up to the date of this Prospectus:

Shareholders	⁽¹⁾No. of Shares	Total consideration	Average effective cost per Share
		RM	RM
Tan Kim Seng	99,040,780	10,041,775	0.10
Tan Kim Chai	98,885,580	10,026,255	0.10
Teou Chau Hoyk	18,753,470	1,902,887	0.10
Tan Yon Haw	21,366,970	2,164,237	0.10
Tan Yong Thye	21,390,160	2,166,555	0.10
Tan Yong Ping	18,753,360	1,902,875	0.10
Tan Yong Heng	18,753,360	1,902,875	0.10
Tan Kee Jin	⁽²⁾ 131,800	13,180	0.10
SDS Tan Properties	4,451,620	451,701	0.10
	301,527,100	30,572,340	0.10

Notes:

- (1) Issued under the Acquisitions; and transfer of 50 subscriber shares each in SDSG to Tan Kim Seng and Tan Kim Chai respectively.
- (2) This represents the number of Shares held by him prior to his subscription of the Pink Form Allocations. Assuming he fully subscribes for his Pink Form Allocations, his shareholdings in our Group will increase from 0.03% (131,800 Shares) to 0.3% (1,131,800 Shares). The average effective cost per Share will also increase from RM0.10 per Share to approximately RM0.21 per Share.

Save for the:

- a. Shares received by our existing shareholders under the Acquisitions; and
- b. transfer of 50 subscriber shares each in SDSG to Tan Kim Seng and Tan Kim Chai respectively,

4. PARTICULARS OF OUR IPO (Cont'd)

there was no acquisition or subscription of any of our Shares by our Directors or key senior management, substantial shareholders or persons connected to them, or any transaction entered into by them which grants them the right to acquire any of our existing Shares, in the past 3 years up to LPD.

4.9 UTILISATION OF PROCEEDS**4.9.1 Public Issue**

The estimated gross proceeds from the Public Issue of approximately RM24.0 million shall accrue entirely to us and will be utilised in the manner set out below. Pending the utilisation of proceeds for the intended purposes, the funds will be placed in short-term deposits with licensed financial institutions.

Utilisation of proceeds	Reference	⁽¹⁾Estimated timeframe for utilisation	RM'000	%
Capital expenditure	(a)	24 months	6,000	25.0
Repayment of bank borrowings	(b)	6 months	7,000	29.2
General working capital	(c)	12 months	7,788	32.5
Listing expenses	(d)	Immediately	3,200	13.3
Total			23,988	100.0

Note:

⁽¹⁾ From the date of listing of our Shares.

(a) Capital expenditure

We intend to utilise RM6.0 million of the proceeds to expand our business presence for both the wholesale and retail channels within the northern and central regions of Peninsular Malaysia respectively with the additional capacity from our new manufacturing plant in Seremban.

For the wholesale channel, we plan to utilise RM2.0 million to increase our fleet of 1-tonne lorries (wholesale logistics) for the northern region of Peninsular Malaysia from 18 to 34 units and to increase the number of 16-tonne lorries for the Seremban manufacturing plant from 6 to 8 units.

The delivery vehicles to be purchased are as follows:

Items	Principal usage	⁽¹⁾Estimated timeframe for utilisation	Purchase quantity	Total cost RM'000
1-tonne lorries	To deliver products from our Northern depots to the final destination	24 months	16	1,472
16-tonne lorries	To transport products from our manufacturing plant in Seremban to the Northern depots for onward distribution	24 months	2	528
				2,000

4. PARTICULARS OF OUR IPO (Cont'd)**Note:**

(1) From the date of listing of our Shares.

For the retail channel, we plan to utilise RM4.0 million to set-up 8 new F&B outlets in the Klang Valley. As at LPD, we have not secured any location for our new F&B outlets. Our Group's strategy is to set up the F&B outlets in shoplot setting located within established residential areas in the Klang Valley. We plan to set up 3 F&B outlets within the first year from date of listing of our Shares, and another 5 F&B outlets within the second year from date of listing of our Shares.

The proceeds will be used for set-up cost and to purchase various machineries and equipment for the new outlets as follows:

Items	Principal usage	(1) Estimated timeframe for utilisation	Purchase quantity	Total cost RM'000
General renovation ⁽²⁾	To renovate the F&B outlets to adapt to our store design	24 months	8	3,040
Chilling system	To chill or refrigerate bakery and other food products	24 months	8	560
Air-conditioning system	To cool our outlets for customers' comfort	24 months	8	240
Point-of-sales system	Cash register to monitor sales to customers	24 months	8	160
				4,000

Notes:

(1) From the date of listing of our Shares.

(2) General renovation includes interior design and fittings.

Our business strategies to increase our fleet of lorries to expand to the central and northern regions of Peninsular Malaysia as well as increase the number of F&B outlets are expected to provide business growth in terms of revenue increase and earnings contribution.

4. PARTICULARS OF OUR IPO (Cont'd)

(b) Repayment of bank borrowings

We have historically relied on bank overdrafts and other trade facilities such as bankers' acceptance and finance lease liabilities to supplement our working capital requirements. We intend to utilise RM7.0 million of the proceeds to reduce the following:

- (i) Firstly, to fully redeem the third party securities in the form of land and buildings from Hong Leong Islamic Bank Berhad. Such third party securities were provided by our Promoters, namely SDS Tan Properties, Tan Kim Seng, Teou Chau Hoyk, Tan Yon Haw, Tan Yong Thye, Tan Yong Ping and Tan Yong Herng together with Ng Yong Lai, a third party business associate of our Promoters. Please refer to Section 10.1.2(b) – Guarantees for further details. Upon full payment of the redemption sum to Hong Leong Islamic Bank Berhad, these third party securities will be discharged.

As at LPD, the outstanding amount for banking facilities (bankers' acceptance and term loans) from Hong Leong Islamic Bank Berhad which are charged against these third party securities is RM4.3 million. However, the final redemption sum will be determined based on the date of repayment. The interest rates for these banking facilities ranges from 3.89% to 6.82%. The expected interest savings is approximately RM0.3 million based on the average interest rate of 5.78% per annum and the amount outstanding as at LPD.

- (ii) The balance after (i) above, will be used to repay our bankers' acceptance in full.

As at LPD, the outstanding bankers' acceptance from Public Bank Berhad amounted to RM0.7 million. The interest rate on these outstanding bankers acceptances is 4.09% per annum. The expected annual interest savings is approximately RM0.03 million based on the average interest rate of 4.0% per annum for the outstanding bankers' acceptance as at LPD.

- (iii) The balance after (i) and (ii) above, will be used to repay our finance lease liabilities from other various banks.

As at LPD, the outstanding finance lease liabilities from Hong Leong Bank Berhad, RHB Bank Berhad, AmBank (M) Berhad, Hitachi Capital Malaysia Sdn Bhd, Public Bank Berhad, SMFL Hire Purchase (Malaysia) Sdn Bhd, MBSB Bank Berhad, ORIX Credit Malaysia Sdn Bhd and Mercedes-Benz Services Malaysia Sdn Bhd amounted to RM17.8 million. The interest rates on these outstanding finance lease liabilities ranges from 3.60% to 6.80% per annum.

The expected annual interest savings is approximately RM0.1 million based on the average interest rate of 6.0% per annum and the balance amount available to repay the outstanding finance lease liabilities of RM2.0 million after repaying the bankers' acceptance.

Notwithstanding the above interest savings calculation, the actual interest savings may vary depending on the then applicable interest rate.

4. PARTICULARS OF OUR IPO (Cont'd)**(c) General working capital**

Approximately RM7.8 million of the proceeds are earmarked to supplement the working capital requirements of our Group. The proceeds will be used to finance our day-to-day operations including additional working capital requirements which are expected to increase in line with our Group's expansion plans.

The details of the utilisation are as follows:

General working capital	RM'000
Payment of overheads such as expenses relating to general upkeep and maintenance of our manufacturing plants	1,000
Purchase of raw materials:	
• Food ingredients	6,288
• Packaging materials	500
Total	7,788

Raw materials are our largest cost of sales item (collectively representing 81.9% in FYE 2019) and as such we have allocated more than half of the proceeds earmarked for working capital requirements to pay these purchases. The allocation to working capital is expected to enhance our Group's liquidity and cash flows, so that we will be in a stronger position to expand our business.

(d) Estimated listing expenses

An amount of RM3.2 million is allocated to meet the estimated cost for our Listing. If our actual listing expenses are higher than the amount budgeted, the deficit will be funded out of the portion allocated for our general working capital. Conversely, if our actual listing expenses are lower than the amount budgeted, the excess will be utilised for our general working capital. The following summarises the estimated expenses incidental to our Listing to be borne by us:

Estimated listing expenses	RM'000
Professional fees ⁽¹⁾	2,250
Fees payable to authorities	70
Underwriting, placement and brokerage fees	700
Printing and advertising fees and other incidental costs	180
Total	3,200

Note:

- ⁽¹⁾ Includes advisory fees for, amongst others, our Adviser and Sponsor, Solicitors, Reporting Accountants and IMR.

4.10 BROKERAGE FEES, PLACEMENT FEES AND UNDERWRITING COMMISSION**(a) Brokerage fees**

Brokerage is payable in respect of the IPO Shares at the rate of 1.0% of our IPO Price in respect of successful applicants which bear the stamp of member companies of Bursa Securities, member of the Association of Banks in Malaysia, members of the Malaysia Investment Banking Association in Malaysia or Issuing House.

4. PARTICULARS OF OUR IPO (Cont'd)

(b) Placement fees

Our Placement Agent has agreed to place out 60,873,600 IPO Shares to selected investors. We are obliged to pay our Placement Agent a placement fee of 2.5% of the value of those IPO Shares to be placed out to investors selected by our Placement Agent at our IPO Price.

(c) Underwriting commission

Our Underwriter has agreed to underwrite 43,423,200 IPO Shares made available for application by the Malaysian Public and Pink Form Allocations. We are obliged to pay our Underwriter an underwriting commission of 3.0% of the total value of the underwritten Shares at our IPO Price.

4.11 SALIENT TERMS OF THE UNDERWRITING AGREEMENT

We have entered into the Underwriting Agreement with the Underwriter, to underwrite 43,423,200 IPO Shares ("Underwritten Shares") as set out in Section 4.3.3.

The following are the salient terms contained in the Underwriting Agreement:

Conditions Precedent

- (1) The obligations of the Underwriter under the Underwriting Agreement are conditional upon the following being fulfilled within 3 months from:
 - (a) The Underwriter being provided with such reports or confirmation and being satisfied on the Closing Date that:
 - (i) no material change or any development likely to result in a material adverse change in the financial position, business operations or conditions (financial or otherwise) of our Group taken as a whole from that subsequent to the date of the Underwriting Agreement; or
 - (ii) there has not occurred any event or the discovery of any facts or circumstances which would render any representations, warranties or undertakings as set out in the Underwriting Agreement materially untrue or inaccurate or result in a material breach of the Underwriting Agreement by our Company;
 - (b) The Underwriter receiving a certificate in the form or substantially in the form contained in Second Schedule (Certificate) of the Underwriting Agreement dated the Closing Date signed by the duly authorised officers of our Company stating inter alia that, to the best of their knowledge and belief, having made all reasonable enquiries, there has been no such change, development or occurrence as set out in the Underwriting Agreement;
 - (c) The Underwriter receiving copies certified by a director or the company secretary of our Company to be a true and accurate copy and in full force and effect of a resolution of the directors:
 - (i) approving the Prospectus and the application forms, the Underwriting Agreement and the transactions contemplated by it; or

4. PARTICULARS OF OUR IPO (*Cont'd*)

- (ii) authorising a person to sign and deliver the Underwriting Agreement on behalf of our Company;
- (d) the Underwriting Agreement being duly signed by all parties and stamped;
- (e) the issue, offer and subscription of the IPO Shares not being prohibited or impeded by any statute, order, rule, directive, guideline, (whether or not having a force of law) or regulation promulgated by any legislative, executive or regulatory body or authority of Malaysia or any condition imposed by the regulators in approving the IPO Shares and all consents, approvals, authorisations or other orders required by our Company under such laws for or in connection with the IPO Shares and/or the Listing have been obtained and are in force on the Closing Date or the Underwriter being reasonably satisfied that the same will be in force on the Closing Date;
- (f) The Underwriter being satisfied that our Company has complied with and that the Shares are in compliance with the policies, guidelines and requirements of the SC and Bursa Securities and all revisions, amendments and/or supplements to it;
- (g) The FTSE Bursa Malaysia Kuala Lumpur Composite Index ("Index") being not lower than 90% of the level of the Index for at least 3 consecutive market days between the date of the Underwriting Agreement and the Closing Date, both dates inclusive;
- (h) There being no breach of and/or failure to perform any of the terms and/or the undertakings contained in the Underwriting Agreement by our Company;
- (i) SC having registered the Prospectus;
- (j) The offering of the IPO Shares having been approved by Bursa Securities and any other relevant authority or authorities and remaining in full force and effect and that all conditions precedent to the approvals (except for any which can only be complied with after the IPO has been completed) have been complied with;
- (k) The Underwriting Agreement having become unconditional in all respects (save for any condition requiring the Underwriting Agreement to be unconditional) and not having been terminated or rescinded pursuant to the provisions thereof and upon the Underwriter's (in this regard, in its capacity as the placement agent for the 60,873,600 IPO Shares that have been placed out by the Placement Agent to selected investors ("Placement Shares")) receipt of the full subscription monies for the Placement Shares on or before the last date for payment of the Placement Shares;
- (l) The delivery to the ROC of the Prospectus for registration in accordance with the requirements of Sections 154 and 155 of the Act; and
- (m) The launching of the Prospectus taking place within 3 months from the date of the Underwriting Agreement or such other later date as the Underwriter and our Company may from time to time agree in writing.

(collectively, the "Conditions Precedent")

4. PARTICULARS OF OUR IPO (*Cont'd*)

- (2) If after the Conditions Precedent have been complied with but our Company decides not to proceed with the IPO, the Underwriter may treat itself as so released or discharged from its obligations.
- (3) The Underwriter may waive all or any of the Conditions Precedent except for any required by a mandatory rule of law or a mandatory requirement of governmental, public or regulatory authorities in connection with the Underwriting Agreement.
- (4) If any of the Conditions Precedent in items (1)(c), (d), (l) and/or (m) above are not satisfied within 3 months from the date of the Underwriting Agreement or such other date the Underwriter and our Company may from time to time agree in writing and/or if any of the conditions in items (1)(a), (b), (e) to (j) to the extent not waived are not satisfied by the Closing Date, the Underwriter after consultation with our Company will thereupon be entitled to terminate the Underwriting Agreement by notice in writing to our Company. In such event the Underwriting Agreement will automatically be terminated and the parties to the Underwriting Agreement will be released and discharged from their obligations, except for the liability of our Company for payments of costs and expenses incurred prior to or in connection with such termination.

Termination

- (5) Notwithstanding anything contained in the Underwriting Agreement, the Underwriter may by notice in writing to our Company given at any time before the Closing Date, terminate, cancel and withdraw its commitment to underwrite the Underwritten Shares and pursuant thereto terminate the Underwriting Agreement if:
 - (a) There is any breach by our Company of any of the representations, warranties or undertakings contained in the Underwriting Agreement;
 - (b) Our Company withholds any information of a material nature from the Underwriter, which, in the reasonable opinion of any underwriter, would have or can reasonably be expected to have, a material adverse effect on the business or operations of our Group, the success of the IPO or the distribution or sale of the IPO Shares;
 - (c) There has occurred, happened or come into effect any material and adverse change to the business or financial condition of our Company or our Group;
 - (d) There has occurred, happened or come into effect any event or series of events beyond the reasonable control of the Underwriter (including without limitation to, acts of government, strikes, national disorder, declaration of a state emergency, lockouts, fire, explosion, flooding, landslide, civil commotion, hurricanes/typhoons, tsunami, widespread diseases, acts of war, sabotage, acts of God etc) which would have, or can reasonably be expected to have, a material adverse on the business or the operation of our Company or our Group or the success of the IPO or which is likely to have the effect of making any material part of the Underwriting Agreement incapable of performance in accordance with its terms;
 - (e) There is the imposition of any moratorium, suspension or material restriction on trading in all securities generally on Bursa Securities which would materially prejudice the success of the IPO;

4. PARTICULARS OF OUR IPO (*Cont'd*)

- (f) Any government, requisition or other occurrence of any nature whatsoever which would or is likely to have a material adverse effect on the financial and operational condition of our Company; or
 - (g) There is failure on the part of our Company to perform any of its obligations contained in the Underwriting Agreement.
- (6) Upon the Underwriter serving the notice of termination in accordance with item (5) above:
- (a) the Underwriter will be released and discharged of its obligations without prejudice to its rights; and
 - (b) the Underwriting Agreement will thereafter be of no further force or effect and no party will be under any liability to any others in respect of the Underwriting Agreement, except that our Company will remain liable in respect of:
 - (i) any of our obligations and liabilities in relation to representations, warranties and undertakings and right to be indemnified by our Company;
 - (ii) for full payment of the underwriting commission, costs and expenses already incurred up to the date on which such notice was given and for the payment of any taxes, duties or levies; and
 - (iii) to refund to the Underwriter the subscription monies, if any, relating to the Underwritten Shares without any deduction.

4.12 TRADING AND SETTLEMENT IN SECONDARY MARKET

Our Shares will be admitted to the Official List of the ACE Market and an official quotation will commence after, *inter-alia*, the receipt of confirmation from Bursa Depository that all of our IPO Shares have been duly credited into the respective CDS Accounts of the successful applicants and the notices of allotment have been issued and despatched to all the successful applicants.

Pursuant to Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as securities to be deposited into the CDS. Following this, we will deposit our Shares directly with Bursa Depository and any dealings in our Shares will be carried out in accordance with the SICDA and Depository Rules. We will not issue any share certificates to successful applicants.

Under the Listing Requirements, at least 25.0% of our enlarged share capital for which listing is sought must be in the hands of a minimum number of 200 public shareholders, each holding not less than 100 Shares upon admission to the ACE Market. We expect to meet the public shareholding requirement at the point of our Listing. If we fail to meet the said requirement, we may not be allowed to proceed with our Listing on the ACE Market. In such an event, we will return in full, without interest, all monies paid in respect of all applications. If any such monies are not repaid within 14 days after we become liable to do so, the provision of sub-section 243(2) of the CMSA shall apply accordingly.

4. PARTICULARS OF OUR IPO (*Cont'd*)

You should rely only on the information contained in this Prospectus or any applicable Prospectus supplement. Neither we nor our advisers have authorised anyone to provide you with information that is different and not contained in this Prospectus. The delivery of this Prospectus or any issue made in connection with this Prospectus shall not, under any circumstances, constitute a representation or create any implication that there has been no change in our affairs since the date of this Prospectus. Nonetheless, should we become aware of any subsequent material change or development affecting a matter disclosed in this Prospectus arising from the date of issue of this Prospectus up to the date of our Listing, we shall further issue a supplemental or replacement prospectus, as the case may be, in accordance with the provisions of Section 238 of the CMSA.

We are not making any invitation to subscribe for our IPO Shares in any jurisdiction and in any circumstances in which such offer or invitation are authorised or lawful to any person to whom it is unlawful to make such an offer or invitation. As the distribution of this Prospectus and the sale of our IPO Shares in certain other jurisdictions may be restricted by law, persons who may be in possession of this Prospectus are required to inform themselves of and to observe such restrictions. The distribution of this Prospectus and the making of our IPO in certain jurisdictions outside Malaysia may be restricted by law. The distribution of this Prospectus and the sale of any part of our IPO Shares are subject to the Malaysian laws and we, together with M&A Securities as our Adviser, Sponsor, Underwriter and Placement Agent, take no responsibility for the distribution of this Prospectus and the offer of any part of our IPO Shares outside Malaysia, which may be restricted by law in certain other jurisdictions.

You must have a CDS Account when applying for our IPO Shares. In the case of an application by way of Application Form, you must state your CDS Account number in the space provided in the Application Form. If you do not presently have a CDS Account, you should open a CDS Account at an ADA prior to making an application for our IPO Shares. Please refer to Section 15 for further details on the procedures for application for our IPO Shares.

In the case of an application by way of Electronic Share Application, only an applicant who is an individual and has a CDS Account can make an Electronic Share Application and the applicant shall furnish your CDS Account number to the Participating Financial Institution by way of keying in your CDS Account number if the instructions on the ATM screen at which you enter your Electronic Share Application require you to do so. A corporation or institution cannot apply for our IPO Shares by way of Electronic Share Application.

In the case of an Application by way of Internet Share Application, only an applicant who has a CDS Account and an existing account to their internet financial services with the Internet Participating Financial Institutions can make an Internet Share Application. You shall furnish your CDS Account number to the Internet Participating Financial Institutions by keying your CDS Account number into the online application form. A corporation or institution cannot apply for our IPO Shares by way of Internet Share Application.

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5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

5.1 PROMOTERS AND SUBSTANTIAL SHAREHOLDERS

5.1.1 Promoters' and substantial shareholders' shareholdings

The shareholdings of our Promoters and substantial shareholders in our Company before and after our IPO are set out below:

Name	Country of incorporation / Nationality	Before IPO ⁽¹⁾			After IPO ⁽²⁾⁽³⁾		
		Direct		Indirect	Direct		Indirect
		No. of Shares	%		No. of Shares	%	
Tan Kim Seng	Malaysian	99,040,780	32.9	(4)4,451,620	99,040,780	24.4	(6)4,701,620
Tan Kim Chai	Malaysian	98,885,580	32.8	(4)4,451,620	98,885,580	24.4	(4)4,451,620
Teou Chau Hoyk ⁽⁸⁾	Malaysian	18,753,470	6.2	-	18,753,470	4.6	-
Tan Yon Haw	Malaysian	21,366,970	7.1	-	21,366,970	5.3	-
Tan Yong Thye	Malaysian	21,390,160	7.1	-	21,390,160	5.3	-
Tan Yong Ping ⁽⁸⁾	Malaysian	18,753,360	6.2	-	18,753,360	4.6	-
Tan Yong Heng ⁽⁸⁾	Malaysian	18,753,360	6.2	-	18,753,360	4.6	-
Tan Kee Jin	Malaysian	131,800	(5)-	-	(7)1,131,800	0.3	-
SDS Tan Properties	Malaysia	4,451,620	1.5	-	4,451,620	1.1	-

Notes:

- (1) After completion of Acquisitions; and transfer of 50 subscriber shares each in SDSC to Tan Kim Seng and Tan Kim Chai respectively; but before Public Issue.
- (2) After Public Issue.
- (3) Based on the enlarged share capital of 405,823,900 Shares after IPO.
- (4) Deemed interested by virtue of their shareholdings in SDS Tan Properties pursuant to Section 8 of the Act.
- (5) Represents less than 0.1%.
- (6) Deemed interested by virtue of his shareholdings in SDS Tan Properties pursuant to Section 8 of the Act and the shareholdings of his son, Tan Kee Meng, pursuant to Section 59(11)(c) of the Act (assuming that he will fully subscribe for his Pink Form Allocations).

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

⁽⁷⁾ Assuming that he will fully subscribe for his Pink Form Allocations.

⁽⁸⁾ Ceased to be substantial shareholder after IPO.

Our Promoters and substantial shareholders do not have different voting right from other shareholders of our Group.

5.1.2 Profiles of Promoters and substantial shareholders

The profiles of our Promoters and substantial shareholders are as follows:

(a) Tan Kim Seng

Tan Kim Seng, a Promoter and substantial shareholder, is also our Managing Director. His profile is disclosed in Section 5.2.2.

(b) Tan Kim Chai

Tan Kim Chai, a Promoter and substantial shareholder, is also our Executive Director. His profile is disclosed in Section 5.2.2.

(c) Teou Chau Hoyk

Teou Chau Hoyk, a Malaysian, aged 62, is a Promoter. She is the wife of Mr Tan Kim Lai, late brother of Tan Kim Seng and Tan Kim Chai. She is the mother of Tan Yon Haw, our Executive Director, as well as Tan Yong Thye, Tan Yong Ping and Tan Yong Heng.

In 1968, she finished her primary education in Sekolah Jenis Kebangsaan (Cina) Kwang Nam, Johor. She has 31 years of experience in the bakery industry. In 1987, she joined Sin Lee Hiang Bakery to oversee the bakery packaging functions. She is currently our Group's Head of Packaging Department.

(d) Tan Yon Haw

Tan Yon Haw, a Promoter and substantial shareholder, is also our Executive Director. His profile is disclosed in Section 5.2.2.

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

(e) Tan Yong Thye

Tan Yong Thye, a Malaysian, aged 42, is a Promoter and substantial shareholder. He is the son of Teou Chau Hoyk and brother of Tan Yon Haw, Tan Yong Ping and Tan Yong Herng.

In 1996, he finished his Form 5 education at Pei Chun High School in Pontian, Johor. Upon completing his secondary education, he joined his family business, Sin Lee Hiang Bakery as a Marketing Manager responsible for driving product promotional activities. He was a partner in Starlight Telecommunication from 2000 to 2002. He currently holds partnership in various entities including Regina Cake House (from 2003 to present) and Sin Lee Hiang Cake House (from 2003 to present). In April 2010, he joined SDS Top Baker and assumed his current position of Marketing Manager. He works under the supervision of the Head of Corporate Planning and Marketing and is responsible to implement our marketing campaigns and provide sales support in the east coast region of Peninsular Malaysia.

(f) Tan Yong Ping

Tan Yong Ping, a Malaysian, aged 39, is a Promoter. He is the son of Teou Chau Hoyk and brother of Tan Yon Haw, Tan Yong Thye and Tan Yong Herng.

He obtained his Diploma in International Business from Southern College, Johor in 2000. In 2001, he began his career in SDS Food as a Chef and was primarily involved in the baking of cakes. He left the company in 2005. From 2006 to 2014, he worked for various bakeries in Singapore namely, Prima Limited and Bengawan Solo. In 2015, he joined SDS Top Baker in his current position of Assistant Production Manager. He works under the supervision of the Production Manager and is responsible for supervising the operations of the cake department.

(g) Tan Yong Herng

Tan Yong Herng, a Malaysian, aged 37, is a Promoter. He is the son of Teou Chau Hoyk and brother of Tan Yon Haw, Tan Yong Thye and Tan Yong Ping.

He obtained his Bachelor of Business Administration from National University of Singapore in 2004. In 2006, he obtained his professional accounting qualification from the Association of Chartered Certified Accountants of UK. He is a member of the Association of Chartered Certified Accountants of UK since 2009.

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

In 2004, he started his career in KPMG LLP in Singapore as Audit Associate. He was promoted to Audit Senior and seconded to KPMG China (Shanghai Office) in 2007. In 2010, he returned to work for KPMG LLP in Singapore and was promoted to Audit Manager. During his stint there, he was involved in conducting independent statutory financial audit works such as examining and evaluating internal control, ensuring compliance with other statutory accounting standards and regulatory requirements as well as audit works on several initial public offering activities of clients from various industries.

He left the audit firm in 2012 to join NTUC Enterprises Co-operative Limited as Finance Manager responsible for producing management reports and ad hoc analysis for senior management as well as assisting in the setting up of group financial reporting process and reporting packages for entities across different industries. In 2016, he was promoted to Vice President for Financial Reporting and Analysis responsible for analysing financial and operational performance of entities across various industries as well as working closely with the Chief Financial Officer on financial matters concerning operations pertaining to business strategy, performance management, budgeting, forecasting and sale analysis. As at LPD, he is still holding this position at the company.

(h) Tan Kee Jin

Tan Kee Jin, a Promoter, is also our Executive Director. His profile is disclosed in Section 5.2.2.

(i) SDS Tan Properties

SDS Tan Properties was incorporated in Malaysia on 29 June 1995 under the Companies Act, 1965 as a private limited company under the name of SDS Food Industries Sdn Bhd. The company changed its name to SDS Bakery & Confectionery Sdn Bhd on 27 May 2000 and subsequently adopted its present name on 6 July 2015. The principal activity of SDS Tan Properties is property investment holding.

As at LPD, the share capital of SDS Tan Properties is RM1,700,000 comprising 1,700,000 shares. The Directors and substantial shareholders of SDS Tan Properties as at LPD are as follows:

Directors	Nationality	Direct		Indirect	
		No. of shares	%	No. of shares	%
Tan Kim Seng	Malaysian	566,667	33.3	-	-
Tan Kim Chai	Malaysian	566,666	33.2	-	-
Teou Chau Hoyk	Malaysian	113,334	6.7	(1)453,333	26.8
Substantial shareholders					
Tan Kim Seng	Malaysian	566,667	33.3	-	-
Tan Kim Chai	Malaysian	566,666	33.2	-	-

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

Substantial shareholders	Nationality	Direct		Indirect	
		No. of shares	%	No. of shares	%
Teou Chau Hoyk	Malaysian	113,334	6.7	(1)453,333	26.8
Tan Yon Haw	Malaysian	113,334	6.7	-	-
Tan Yong Thye	Malaysian	113,333	6.7	-	-
Tan Yong Ping	Malaysian	113,333	6.7	-	-
Tan Yong Heng	Malaysian	113,333	6.7	-	-
		1,700,000	100.0		

Note:

(1) Deemed interested by virtue of the shareholdings of her children, namely Tan Yon Haw, Tan Yong Thye, Tan Yong Ping and Tan Yong Heng pursuant to Section 59(11)(c) of the Act.

5.1.3 Changes in the Promoters' and substantial shareholders' shareholdings

The changes in our Promoters and substantial shareholders' respective shareholdings since our Company's incorporation are as follows:

	As at incorporation			After Acquisitions ⁽¹⁾			As at LPD ⁽²⁾⁽³⁾		
	Direct		Indirect	Direct		Indirect	Direct		Indirect
	No. of Shares	%	No. of Shares	No. of Shares	%	No. of Shares	No. of Shares	%	No. of Shares
Lee San Koon	50	50.0	-	-	-	-	-	-	-
Nor Suhana binti Zakaria	50	50.0	-	-	-	-	-	-	-
Tan Kim Seng	-	-	-	99,040,780	32.9	(4)4,451,620	1.5	99,040,780	(6)4,701,620
Tan Kim Chai	-	-	-	98,885,580	32.8	(4)4,451,620	1.5	98,885,580	(4)4,451,620
Teou Chau Hoyk ⁽⁸⁾	-	-	-	18,753,470	6.2	-	-	18,753,470	-
Tan Yon Haw	-	-	-	21,366,970	7.1	-	-	21,366,970	-
Tan Yong Thye	-	-	-	21,390,160	7.1	-	-	21,390,160	-
Tan Yong Ping ⁽⁸⁾	-	-	-	18,753,360	6.2	-	-	18,753,360	-
Tan Yong Heng ⁽⁸⁾	-	-	-	18,753,360	6.2	-	-	18,753,360	-
Tan Kee Jin	-	-	-	131,800	(5)-	-	-	(7)1,131,800	-
SDS Tan Properties	-	-	-	4,451,620	1.5	-	-	4,451,620	-

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

Notes:

- (1) Based on the share capital of 301,527,100 Shares after Acquisitions, and transfer of 50 subscriber shares each in SDSG to Tan Kim Seng and Tan Kim Chai respectively; but before Public Issue.
- (2) After Public Issue.
- (3) Based on the enlarged share capital of 405,823,900 Shares after IPO.
- (4) Deemed interested by virtue of their shareholdings in SDS Tan Properties pursuant to Section 8 of the Act.
- (5) Represents less than 0.1%.
- (6) Deemed interested by virtue of his shareholdings in SDS Tan Properties pursuant to Section 8 of the Act and the shareholdings of his son, Tan Kee Meng, pursuant to Section 59(11)(c) of the Act (assuming that he will fully subscribe for his Pink Form Allocations).
- (7) Assuming that he will fully subscribe for his Pink Form Allocations.
- (8) Ceased to be substantial shareholder after IPO.

5.1.4 Persons exercising control over the corporation

Save for our Promoters, we are not aware of any other person who is able to, directly or indirectly, jointly or severally, exercise control over our Company.

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5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

5.2 DIRECTORS

5.2.1 Directors' shareholdings

The shareholdings of our Directors in our Company before and after our IPO assuming that our Directors will fully subscribe for their respective entitlements under the Pink Form Allocations are set out below:

		Designation/ Nationality	Before IPO ⁽¹⁾			After IPO ⁽²⁾		
			Direct		Indirect	Direct		Indirect
			No. of Shares	%		(3) No. of Shares	% (5)	No. of Shares
Lim Pang Kiam	Non- Independent Executive Chairman/ Malaysian		-	-	-	250,000	-	-
Tan Kim Seng	Managing Director/ Malaysian		99,040,780	32.9	(4)4,451,620	99,040,780	24.4	(6)4,701,620
Tan Kim Chai	Executive Director/ Malaysian		98,885,580	32.8	(4)4,451,620	98,885,580	24.4	(4)4,451,620
Tan Yon Haw	Executive Director/ Malaysian		21,366,970	7.1	-	21,366,970	5.3	-
Tan Kee Jin	Executive Director/ Malaysian		131,800	(5)-	-	1,131,800	0.3	-
Phang Sze Fui	Independent Non- Executive Director/ Malaysian		-	-	-	250,000	(5)-	-

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

Name	Designation/ Nationality	Before IPO ⁽¹⁾			After IPO ⁽²⁾		
		Direct		Indirect	Direct		Indirect
		No. of Shares	%		(3) No. of Shares	%	
Azahar bin Baharudin	Independent Non- Executive Director/ Malaysian	-	-	-	250,000	(5) -	-
Dato' Albert Ding Choo Earn	Independent Non- Executive Director/ Malaysian	-	-	-	250,000	(5) -	-

Notes:

- (1) Based on the share capital of 301,527,100 Shares after Acquisitions and transfer of 50 subscriber shares each in SDSG to Tan Kim Seng and Tan Kim Chai respectively; but before Public Issue.
- (2) Based on the enlarged share capital of 405,823,900 Shares after IPO.
- (3) Assuming that our Directors will fully subscribe for their respective Pink Form Allocations.
- (4) Deemed interested by virtue of their shareholdings in SDS Tan Properties pursuant to Section 8 of the Act.
- (5) Represents less than 0.1%.
- (6) Deemed interested by virtue of his shareholdings in SDS Tan Properties pursuant to Section 8 of the Act and the shareholdings of his son, Tan Kee Meng, pursuant to Section 59(11)(c) of the Act (assuming that he will fully subscribe for his Pink Form Allocations).

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

5.2.2 Profiles of Directors

Lim Pang Kiam, a Malaysian, aged 56, is our Independent Non-Executive Chairman. He was appointed to our Board on 4 September 2018, and is also Chairman of our Nominating Committee. He is also a member of our Audit Committee, Risk Management Committee and Remuneration Committee.

He obtained a Bachelor of Science (Honours) in Housing, Building and Planning and a Master of Science in Planning from Universiti Sains Malaysia in 1988 and 1989 respectively. In 2002, he was certified as Financial Planner by the Financial Planning Association of Malaysia. He is also a Credit Risk Management specialist. He obtained his chartered membership as a Certified Risk Professional from the Bank Administration Institute for Certification in USA in 2003. He is also a member of the Asian Institute of Chartered Bankers (formerly known as Institute of Bankers Malaysia) since 1999 and was transited to an associate of the Asian Institute of Chartered Bankers in 2015 following the transformation of Institute of Bankers Malaysia into Asian Institute of Chartered Bankers. In 2018, he was certified as Chartered Management Accountant and Chartered Global Management Accountant by the Chartered Institute of Management Accountants ("CIMA"). He was also admitted as a fellow member of the Institute of Corporate Director Malaysia during the same year. He was admitted as a member of the Malaysian Institute of Accountants, successfully registered as an ASEAN Chartered Professional Accountant and admitted as a fellow member of CIMA in January, March and April 2019 respectively.

He began his career in BHL Bank Berhad as Credit Officer in 1989, and was promoted to Branch Manager in 1991. In 1999, he left the bank as Branch Manager to join United Overseas Bank (Malaysia) Berhad as Vice President of Business Banking up to 2002. He then joined Affin Bank Berhad as Head of Corporate Banking from 2002 to 2004.

He ventured into the corporate sector when he joined SYF Resources Berhad in 2004 as Executive Director, a position he held until 2008. He was also Independent Non-Executive Director of Pantai Holdings Berhad from 2004 to 2005. He joined Atrium REIT Managers Sdn Bhd from 2009 to 2010 as Executive Director and Chief Executive Officer. In 2010, he joined LCL Corporation Bhd, an interior decoration contracting company, as Chief Executive Officer, a position he held until 2011. In 2010, he also co-founded PNL Business Services Sdn Bhd together with his business partners, where he is still responsible for the day-to-day operations of the company.

In 2013, he was appointed Independent Non-Executive Director of YKGI Holdings Berhad and was redesignated to Independent Non-Executive Chairman in 2014, a position he held until June 2018. He was Independent Non-Executive Director of Kinsteel Bhd from 2014 to 2015. In 2016, he was appointed Independent Non-Executive Chairman of Inta Bina Group Berhad. In July 2018, he was also appointed Independent Non-Executive Director of Engtex Group Berhad.

He presently holds directorship in a number of private limited companies.

Tan Kim Seng, a Malaysian, aged 62, is our Managing Director. He was appointed to our Board on 4 September 2018. He is the co-founder of SDS Food and has spearheaded the business growth of our Group since its inception in 1987. He is responsible for formulating and implementing the overall business strategy and corporate development of our Group.

Tan Kim Seng is considered an industry veteran with 48 years of working experience in the bakery industry. In 1969, he completed his primary education in Sekolah Jenis Kebangsaan (Cina) Tampoi, Johor and immediately apprenticed at his father's pastry shop, Chop Lee Hiang at the young age of 13, where he learned how to make traditional biscuits and other

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

bakery products. He also learned how to operate and manage a bakery business as well as how to sell and market bakery products. Through his many years of experience gained from working with his father, he ventured out together with his brother, Tan Kim Chai and formed a partnership business named Masai Lee Hiang in 1984. Masai Lee Hiang was renamed to Sin Lee Hiang Bakery in 1987 and subsequently corporatised into SDS Food in 1992.

Under the leadership of Tan Kim Seng and his brother, Tan Kim Chai, our Group has grown from a small retail bakery with only 5 employees to an organisation with approximately 1,200 employees.

He presently holds directorship in a number of private limited companies.

Tan Kim Chai, a Malaysian, aged 57, is our Executive Director. He was appointed to our Board on 4 September 2018. He is the co-founder of SDS Food. Prior to FYE 2018, he was mainly responsible for overseeing our wholesale logistic activities. Since the beginning of FYE 2019, he took on the roles of overseeing our Group's sales and marketing division for the wholesale channel.

In 1978, he finished his Lower Certificate of Education (equivalent to Penilaian Menengah Rendah, Form 3) in Sekolah Menengah Perumahan Tampoi, Johor (now known as Sekolah Menengah Kebangsaan Dato' Abdul Rahman Yassin). Tan Kim Chai who has 39 years of working experience in the bakery industry, started working at his father's bakery shop together with his brother, Tan Kim Seng at the young age of 17, where he learned how to make traditional biscuits and other bakery products. He also learned how to manage the finances and logistic functions of a bakery business. In 1984, he formed a partnership business named Masai Lee Hiang together with his brother, Tan Kim Seng. Masai Lee Hiang was renamed to Sin Lee Hiang Bakery in 1987 and subsequently corporatised into SDS Food in 1992. Together with his brother, they transformed our Group from a small retail bakery with only 5 employees to an organisation with approximately 1,200 employees.

Tan Yon Haw, a Malaysian, aged 42, is our Executive Director. He was appointed to our Board on 4 September 2018. He is in charge of our Group's wholesale channel. He is responsible for the day-to-day operations and production activities for our wholesale channel.

In 1994, he finished his Form 4 education at Pei Chun High School in Pontian, Johor. In 1995, he started his career with our Group as a Production Operator involved in the production of bakery products. In 1996, he left our Group to join Sony Electronics (Singapore) Pte Ltd in Singapore as a Machine Operator in the production of printed circuit board. He left the company and returned to Malaysia in 1997.

In 1997, he re-joined our Group as Purchasing Supervisor where he was in charge of the overall procurement of our raw materials. In 2000, he left our Group to set up a mobile phone trading business named Starlight Telecommunication. He dissolved the business in 2004 and re-joined our Group as Production Supervisor in the same year. In 2008, he was promoted to Head of Production, a position he still holds to date.

Tan Kee Jin, a Malaysian, aged 35, is our Executive Director. He was appointed to our Board on 4 September 2018. He is also a member of our Risk Management Committee. He is in charge of our Group's retail channel. He is mainly responsible for developing and implementing strategies to drive our Group's retail revenue and growth.

He obtained a Bachelor of Commerce from University of Western Australia, Australia in 2007. He pursued this degree on a part-time basis in PSB Academy, Singapore while working in various jobs.

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

In 2004, he started his career in Mecomb Singapore Limited in Singapore while studying part-time in PSB Academy, Singapore. In Mecomb Singapore Limited, he was a Service Technician where he was involved in the provision of installation, maintenance and repair services on car parking system. He left the company and returned to Malaysia in 2006 to join our Group as an Invoicing Supervisor responsible for overseeing the daily invoicing operations and managing products logistics at all our retail outlets.

In 2008, he was posted to the Business Development Department and held the position of Business Development Executive until 2012. He was subsequently promoted to Business Development Manager and Executive Director of SDS Food in 2012 and 2015 respectively. In 2015, he helmed SDS Food's entire retail channel.

Phang Sze Fui, a Malaysian, aged 47, is our Independent Non-Executive Director. She was appointed to our Board on 4 September 2018, and is also Chairwoman of our Audit Committee and a member of our Risk Management Committee.

She obtained her Advanced Diploma in Commerce from Tunku Abdul Rahman College in 1997. In 1998, she obtained her professional accounting qualification from the Association of Chartered Certified Accountants of UK. She has been a member of the Malaysian Institute of Accountants since 2009 and a fellow member of the Association of Chartered Certified Accountants of UK since 2005.

She began her career as Accounts Executive in Seawood Trading Company in 1992. She subsequently started working with the company on a part-time basis from 1993 until her departure in 1995 to pursue her studies in Tunku Abdul Rahman College. During her tenure with the company, she was involved in the handling of accounting records and related administrative matters. From 1995 to 1997, she pursued her studies on a full-time basis.

Upon obtaining her diploma, she returned to work in 1997 by joining, Messrs Baker Tilly Monteiro Heng as Audit Assistant, where she was primarily involved in various statutory audit assignments. She was subsequently promoted to Senior Audit Manager, Associate Director of Transaction Reporting Division and Executive Director of Transaction Reporting Division in 2005, 2007 and 2011 respectively. During her tenure there, she undertook various responsibilities including leading the audit team to conduct audit and special assignments, liaising with stakeholders, conducting training, ensuring compliance with auditing and accounting standards as well as regulatory requirements and expanding the growth of the Transaction Reporting Division. She left the firm in 2015.

In 2016, she joined Dolphin Application Sdn Bhd (a subsidiary of Dolphin International Berhad) as Corporate Affairs Director responsible for supervising corporate exercises, handling special projects, overseeing investor relations and public relations matters, improving internal control systems and reporting structure, overseeing compliance matters and liaising with stakeholders. She left Dolphin Application Sdn Bhd in 2017 to pursue her own business venture, Avia Alliance Sdn Bhd, a business and accounting consultancy firm.

She was appointed as Independent Non-Executive Director of Kim Teck Cheong Consolidated Berhad and Mestron Holdings Berhad in September 2018 and October 2018 respectively.

Azahar bin Baharudin, a Malaysian, aged 63, is our Independent Non-Executive Director. He was appointed to our Board on 4 September 2018, and is also a Chairman of our Remuneration Committee. He is also a member of our Audit Committee and Nominating Committee.

He obtained his Diploma in Banking Studies from MARA Institute of Technology in 1984.

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

In 1978, he began his career in United Asian Bank Berhad as a Clerk providing general office support for the daily banking operations. In 1981, he was promoted to Class 2 Officer and was assigned to work in various divisions within the bank namely, Industrial Financing Division, Credit Administration and Control Division as well as Retail Financing. He left the bank in 1991. During the same year, he joined Affin Bank Berhad as Executive Officer responsible for undertaking credit processing duties. He held several managerial positions in Affin Bank Berhad since 1992. He was later promoted to Head of Credit for the Johor Jaya Branch in 1992 and was subsequently promoted to Deputy Branch Manager of the same branch in 1993. He was promoted to Branch Manager of Kulai Branch and Johor Bahru Business Centre Head in 1994 and 2003 respectively. He left the bank in 2003.

In 2004, he co-founded Murni Alliance Consult Sdn Bhd, a business advisory firm. In 2008, he disposed his shares and resigned as Director from the company. During his tenure in Murni Alliance Consult Sdn Bhd, he also had a short stint with Intralink Techno Sdn Bhd, a manufacturer of fibre glass reinforced plastic company, as General Manager in Business Development from 2006 to 2007.

He was an Independent Non-Executive Director of SerSol Technologies Berhad from 2004 to 2012. After he resigned as Director from Murni Alliance Consult Sdn Bhd in 2008, he only held his role in SerSol Technologies Berhad. In 2011 he joined Messrs Abdul Raman Saad & Associates, a legal firm, as Head of Business Development Units for its Kuala Lumpur office until 2012.

He currently sits on the Board of Directors of 3 public listed companies on the Main Market of Bursa Securities as an Independent Non-Executive Director namely Gromutual Berhad, Solid Automotive Berhad and Power Root Berhad since 2011, 2012 and 2014 respectively.

Dato' Albert Ding Choo Earn, a Malaysian, aged 40, is our Independent Non-Executive Director. He was appointed to our Board on 4 September 2018, and is Chairman of our Risk Management Committee. He is also a member of our Audit Committee, Remuneration Committee and Nominating Committee.

He obtained a Bachelor of Laws from Bond University, Australia in 2002 and was called to the Malaysian Bar in 2005.

He is a lawyer by profession and has been involved in private legal practice since the start of his career. He practised civil general litigation, corporate law and conveyancing law at Messrs Dennis Nik & Wong from 2005 to 2006, Messrs Mak, Ng, Shao & Kee from 2006 to 2007 and Messrs Woon Wee Yuen & Partners from 2007 to 2010. In 2010, he co-founded Messrs Albert Ding, Chng & Co as a partner (which was dissolved in 2011). In 2011, he joined Messrs S P Lee & Associates (now known as Messrs Albert Ding, Lee & Partners) as Managing Partner. As at LPD, he is still the Managing Partner of the law firm.

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5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

5.2.3 Principal business performed outside our Group

Save as disclosed below, none of our Directors has any other principal directorship and/or principal business activities performed outside our Group in the past 5 years up to LPD:

(a) Lim Pang Kiam

Company	Principal activities	Position held	Date of appointment	Date of resignation	% of shareholdings held	
					Direct	Indirect
<u>Present involvement</u>						
PNL Business Services Sdn Bhd	Providing financial management, consulting services and investment holding	Director	1 October 2010	-	32.0	-
PNL Capital Sdn Bhd	Providing financial management, consulting services and investment holding	Director	10 November 2011	-	33.3	-
Subang Industry Park Sdn Bhd	Property investment	Director	10 November 2011	-	-	100.0 ⁽¹⁾
Antara Hijau Sdn Bhd	Property investment and holding	Director	19 September 2011	-	40.0	-
Pedoman Pesaka Sdn Bhd ⁽³⁾	Dormant, previous principal activity was property investment	Director	17 June 2013	-	33.3	-
Westfield Ventures Sdn Bhd	Property investment	Director	12 March 2012	-	-	50.0 ⁽²⁾
PNL Venture Sdn Bhd	Property investment, providing financial and management consultancy services	Director	23 April 2010	-	33.3	-
PNL Land Sdn Bhd	Property investment	Director	3 August 2009	-	-	100.0 ⁽²⁾
Inta Bina Group Berhad	Investment holding company, securing and carrying out construction contracts	Independent Non-Executive Chairman	15 April 2016	-	0.4	-
Rising Salute Sdn Bhd	Property investment	Director	16 December 2016	-	33.3	-
Westfield Holdings Sdn Bhd	Property investment	Director	22 May 2015	-	⁽⁵⁾ -	-
Scenic Summit Sdn Bhd	Property investment	Director	19 September 2016	-	33.4	-

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

Company	Principal activities	Position held	Date of appointment	Date of resignation	% of shareholdings held	
					Direct	Indirect
PNL Trading Sdn Bhd	General trading, investment holding and providing financial and management consultancy services	Director	1 October 2010	-	32.0	-
Tian An Trading Sdn Bhd	General trading of Japanese and Korean food products	-	-	-	33.3	-
Warna Kencana Sdn Bhd	Property investment	Director	26 October 2015	29 April 2016	33.3	-
Cloverchip Sdn Bhd	Property investment	Director	4 December 2015	29 April 2016	33.3	-
Urban Fiesta Sdn Bhd	Property investment	Director	4 December 2015	29 April 2016	33.3	-
Midas Parade Sdn Bhd	Construction, property development and agricultural	Director	18 April 2012	-	25.0	-
Era Pelita Sdn Bhd	Property investment	Director	1 October 2015	29 April 2016	33.3	-
Engtex Group Berhad	Manufacturing of steel-related products	Independent Non-Executive Director	23 July 2018	-	-	-
<u>Past involvement</u>						
Kinsteel Bhd ⁽⁴⁾	Manufacturing and trading of steel products	Independent Non-Executive Director	11 July 2014	23 June 2015	-	-
Rentas Simfoni Sdn Bhd	Struck off in 2017	Director	2 March 2016	29 April 2016	-	-
Eurofront Equity Sdn Bhd	Property investment	Director	5 February 2014	29 April 2016	-	-
Natural Ideas Sdn Bhd	Property investment	Director	5 March 2013	29 April 2016	-	100.0 ⁽²⁾
Faber Green Sdn Bhd	Struck off in 2018	Director	1 October 2010	29 April 2016	-	100.0 ⁽¹⁾
Cocapi Sdn Bhd	Struck off in 2017	Director	5 May 2016	31 May 2016	45.0	-

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

Company	Principal activities	Position held	Date of appointment	Date of resignation	% of shareholdings held	
					Direct	Indirect
YKGI Holdings Berhad	Manufacture and sale of galvanised and coated steel products, pickled and oiled hot rolled coils and cold roller coils	Independent Non-Executive Chairman	3 January 2013	29 June 2018	-	-
Arrowtune Sdn Bhd	Property investment	Director	27 May 2013	29 April 2016	-	-
Asas Bumiraya Sdn Bhd	Struck off in 2018	Director	15 April 2013	29 April 2016	40.0	-

Notes:

- (1) Deemed interest by virtue of his shareholdings in PNL Trading Sdn Bhd pursuant to Section 8 of the Act.
 (2) Deemed interest by virtue of his shareholdings in PNL Business Services Sdn Bhd pursuant to Section 8 of the Act.
 (3) Striking off in process.
 (4) Winding-up in process.
 (5) Less than 0.1%.

(b) Tan Kim Seng

Company	Principal activities	Position held	Date of appointment	Date of resignation	% of shareholdings held	
					Direct	Indirect

Present involvement

KS Tan Properties Sdn Bhd	Breeding, processing and sales of bird's nest	Director	19 May 2003	-	50.0	-
SDS Tan Properties	Property investment	Director	29 June 1995	-	33.3	-
SDS Holdings Sdn Bhd ⁽³⁾	Dormant. There are currently no future plans for it	Director	2 October 2017	-	33.3	-

Past involvement

CL Cake House Sdn Bhd ⁽¹⁾	Trading of cakes, confectionery and seasoned food	Director	28 July 2003	-	-	51.0 ⁽²⁾
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5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

Notes:

- (1) Dissolved in 2015 pursuant to Section 272(5) of the Companies Act, 1965.
 (2) Deemed interested by virtue of his shareholdings in SDS Tan Properties pursuant to Section 8 of the Act.
 (3) Striking off in process.

(c) Tan Kim Chai

Company	Principal activities	Position held	Date of appointment	Date of resignation	% of shareholdings held	
					Direct	Indirect
<u>Present involvement</u>						
SDS Tan Properties	Property investment	Director	29 June 1996	-	33.2	-
SDS Holdings Sdn Bhd ⁽¹⁾	Dormant. There are currently no future plans for it	-	-	-	33.3	-
Regina Cake House	Dormant, previous principal activity was distribution of bakery products in Singapore	-	-	-	34.0	-
Sin Lee Hiang Cake House	Dormant, previous principal activity was distribution of bakery products in Singapore	-	-	-	34.0	-

Past involvement

PT Top Baker Indonesia	Manufacturing and distribution of bakery products in Indonesia	Director	23 December 2014	22 November 2017	-	-
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Note:

- (1) Striking off in process.

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

(d) Tan Yon Haw

Company	Principal activities	Position held	Date of appointment	Date of resignation	% of shareholdings held	
					Direct	Indirect
<u>Present involvement</u>						
SDS Tan Properties	Property investment	-	-	-	6.7	-
Tan Kim Lai Holdings Sdn Bhd ⁽²⁾	Dormant. There are currently no future plans for it	Director	20 September 2017	-	20.0	-
SDS Holdings Sdn Bhd ⁽²⁾	Dormant. There are currently no future plans for it	-	-	-	-	(1)33.3

Notes:

- ⁽¹⁾ Deemed interested by virtue of his shareholdings in Tan Kim Lai Holdings Sdn Bhd pursuant to Section 8 of the Act.
- ⁽²⁾ Striking off in process.

(e) Tan Kee Jin

Company	Principal activities	Position held	Date of appointment	Date of resignation	% of shareholdings held	
					Direct	Indirect
<u>Present involvement</u>						
Regina Cake House	Dormant, previous principal activity was distribution of bakery products in Singapore	-	-	-	33.0	-
Sin Lee Hiang Cake House	Dormant, previous principal activity was distribution of bakery products in Singapore	-	-	-	33.0	-

(f) Phang Sze Fui

Company	Principal activities	Position held	Date of appointment	Date of resignation	% of shareholdings held	
					Direct	Indirect
<u>Present involvement</u>						
Avia Alliance Sdn Bhd	Business management consultancy services	Director	18 July 2017	-	100.0	-

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

Company	Principal activities	Position held	Date of appointment	Date of resignation	% of shareholdings held	
					Direct	Indirect
Kim Teck Cheong Consolidated Berhad	Distribution of consumer packaged goods in East Malaysia	Independent Non-Executive Director	28 September 2018	-	-	-
Mestron Holdings Berhad	Manufacturing of steel poles and trading of outdoor lighting products	Independent Non-Executive Director	15 October 2018	-	(1)	-
IWC Performance Innovations Sdn Bhd	Wholesale of a variety of information technology products and other information technology services	Director	17 December 2018	-	3.0	-
<u>Past involvement</u>						
Biogas Sulpom Sdn Bhd	Manufacturer, processor and supplier of biogas	Director	14 December 2016	15 August 2017	-	-
Heng Hup Chiho Recycling (Malaysia) Sdn Bhd	Investment holding, export and import of metal and non-metal waste, scrap and material for recycling and other retail sale of new goods in specialised stores	Director	1 February 2019	10 May 2019	-	-
Note:						
(1)	Less than 0.1%.					
(g)	Azahar bin Baharudin					
Company	Principal activities	Position held	Date of appointment	Date of resignation	% of shareholdings held	
					Direct	Indirect

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

Company	Principal activities	Position held	Date of appointment	Date of resignation	% of shareholdings held	
					Direct	Indirect
Power Root Berhad	Investment holding, manufacture and distribution of beverage products and provision of accommodation facilities	Independent Non-Executive Director	28 April 2014	-	-	-
(h) Dato' Albert Ding Choo Earn						
Company	Principal activities	Position held	Date of appointment	Date of resignation	% of shareholdings held	Direct

Present involvement

JJ Lions Dialysis Centre	Kidney dialysis treatment, health care & educational centre	Director	1 September 2010	-	-	-
Obor Consultant Malaysia Sdn Bhd ⁽¹⁾	IT and business management consultancy services	Director	7 November 2017	-	5.0	-
Kim Teng Yan Holdings Sdn Bhd	Trading and cultivation of oil palm and rubber	Director	19 November 2011	-	1.0	-
Albert Ding, Lee & Partners	Legal firm	Managing Partner	18 January 2011	-	-	-

Chen Feng 91 Sdn Bhd	Retail sale of household furniture	Director	31 May 2019	-	-	-
CWDing Properties Sdn Bhd	Property investment and provision of management consultancy services	Director	10 April 2019	-	-	-

Past involvement

DDM Telecommunication Sdn Bhd ⁽²⁾	To provide all types of services in connection with telecommunication equipment & system and related products	-	-	-	50.0	-
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Notes:

- (1) Striking off in process.
(2) Dissolved in 2016 pursuant to Section 308(4) of the Companies Act 1965.

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

Save as disclosed in Section 10.2.1, the involvement of our Directors in those business activities outside our Group does not give rise to any conflict of interest situation with our business. Our Executive Directors' involvement in those business activities does not require significant amount of time and does not affect their ability to perform their executive roles and responsibilities to our Group.

It is the Director's fiduciary duty to avoid conflict. Our Directors are required to attend courses which provide guidelines to them on their fiduciary duties. In order to mitigate any possible conflict of interest situation in the future, our Directors will declare to our Nominating Committee and our Board their interests in other companies on the onset and as and when there are changes in their respective interests in companies outside our Group. Our Nominating Committee will first then evaluate if such Director's involvement give rise to an actual or potential conflict of interest with our Group's business after the disclosure provided by such Director. After a determination has been made on whether there is an actual or potential conflict of interest of a Director, our Nominating Committee will then:

- (a) Immediately inform our Board of the conflict of interest situation;
- (b) Make recommendations to our Board to direct the conflicted Director to:
 - (i) Withdraw from all his executive involvement in our Group in relation to the matter that has given rise to the conflict of interest (in the case where the conflicted Director is an Executive Director); and
 - (ii) Abstain from all Board deliberation and voting in the matter that has given rise to the conflict of interest.

In relation to (b) above, the conflicted Director and persons connected to him (if applicable) shall be absent from any Board discussion relating to the recommendation of our Nominating Committee and the conflicted Director and persons connected to him (if applicable) shall not vote or in any way attempt to influence the discussion of, or voting on, the matter at issue. The conflicted Director, may however at the request of the Chairman of the Board, be present at the Board meeting for the purposes of answering any questions.

In circumstances where a Director is determined to have a significant, ongoing and irreconcilable conflict of interest with our Group, and where such conflict of interest significantly impedes the Director's ability to carry out his fiduciary responsibility to our Group, our Nominating Committee may determine that a resignation of the conflicted Director from our Board is appropriate and necessary.

Where there are related party transactions between our Group with our Directors (or person connected to them) or companies in which our Directors (or person connected to them) have an interest, our Audit Committee will, amongst others, supervise and monitor such related party transaction and the terms thereof and report to our Board for further action. Please refer to Section 10.1.1 for the procedures to be taken to ensure that related party transactions (if any) are undertaken on arm's length basis.

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

5.2.4 Directors' remuneration and benefits

The aggregate remuneration and material benefits-in-kind paid and proposed to be paid to our Directors for services rendered in all capacities to our Group for FYE 2019 and 2020 are as follows:

FYE 2019	Directors' fees	Allowance	Salaries	Bonuses	Other emoluments	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Non- Executive Directors						
Lim Pang Kiam	-	-	-	-	-	-
Phang Sze Fui	-	-	-	-	-	-
Azahar bin Baharudin	-	-	-	-	-	-
Dato' Albert Ding Choo Earn	-	-	-	-	-	-
Executive Directors						
Tan Kim Seng	-	36	165	166	43	410
Tan Kim Chai	-	46	97	150	34	327
Tan Yon Haw	-	84	102	140	35	361
Tan Kee Jin	-	84	150	176	47	457

PROPOSED FOR FYE 2020

	Directors' fees	Allowance	Salaries	Bonuses	Other emoluments	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Non- Executive Directors						
Lim Pang Kiam	50	5	-	-	-	55
Phang Sze Fui	38	5	-	-	-	43
Azahar bin Baharudin	38	5	-	-	-	43
Dato' Albert Ding Choo Earn	38	5	-	-	-	43
Executive Directors						
Tan Kim Seng	-	24	264	(1)	-	288
Tan Kim Chai	-	60	192	(1)	-	252
Tan Yon Haw	-	42	210	(1)	-	252
Tan Kee Jin	-	42	210	(1)	-	252

Note:

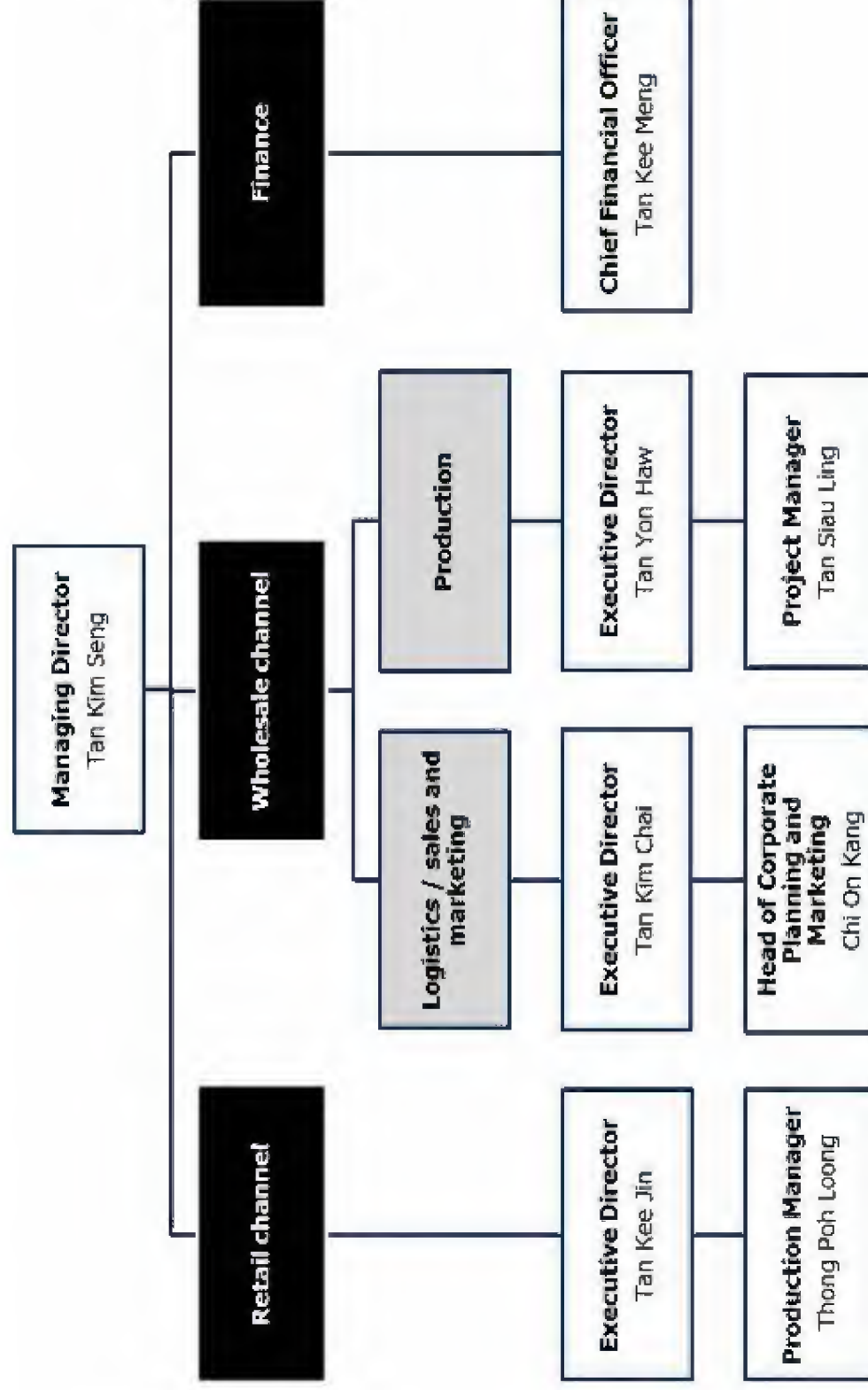
- (1) Bonuses for FYE 2020 are not included. Such bonuses, if any, will be determined later depending on the performance of our Group, subject to the recommendation of the Remuneration Committee and approved by our Board.

The remuneration of our Directors must be reviewed and recommended by our Remuneration Committee and subsequently, be approved by our Board. Any change in Director's fees as set out in our Constitution must be approved by our shareholders pursuant to an ordinary resolution passed at a general meeting where appropriate notice of the proposed changes should be given. Please refer to Section 14.3 for further details.

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

5.3 KEY SENIOR MANAGEMENT

5.3.1 Management structure



5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

5.3.2 Key senior management shareholdings

The shareholdings of our key senior management in our Company before and after IPO assuming that they will fully subscribe for their respective entitlements under the Pink Form Allocations are set out below:

Name	Designation/ Nationality	Before IPO ⁽¹⁾			After IPO ⁽²⁾		
		Direct		Indirect		Direct	
		No. of Shares	%	No. of Shares	%	(3) No. of Shares	No. of Shares %
Tan Kim Seng	Managing Director/ Malaysian	99,040,780	32.9	(4)4,451,620	1.5	99,040,780	(6)4,701,620 24.4 1.2
Tan Kim Chai	Executive Director/ Malaysian	98,885,580	32.8	(4)4,451,620	1.5	98,885,580	(4)4,451,620 24.4 1.1
Tan Yon Haw	Executive Director/ Malaysian	21,366,970	7.1	-	-	21,366,970	5.3 -
Tan Kee Jin	Executive Director/ Malaysian	131,800	(5)-	-	-	1,131,800	0.3 -
Tan Kee Meng	Chief Financial Officer/ Malaysian	-	-	-	-	250,000	(5)- -
Chi On Kang	Head of Corporate Planning and Marketing / Malaysian	-	-	-	-	250,000	(5)- -
Thong Poh Loong	Production Manager/ Malaysian	-	-	-	-	45,000	(5)- -

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (Cont'd)

Name	Designation/ Nationality	Before IPO ⁽¹⁾			After IPO ⁽²⁾		
		Direct		Indirect	Direct		Indirect
		No. of Shares	%		(3) No. of Shares	%	
Tan Siau Ling	Project Manager/ Malaysian	-	-	-	90,000	(5)	-

Notes:

- (1) Based on the share capital of 301,527,100 Shares after Acquisitions and transfer of 50 subscriber shares each in SDSG to Tan Kim Seng and Tan Kim Chai respectively; but before Public Issue.
- (2) Based on the enlarged share capital of 405,823,900 Shares after IPO.
- (3) Assuming that our key senior management will fully subscribe for their Pink Form Allocations.
- (4) Deemed interested by virtue of their shareholdings in SDS Tan Properties pursuant to Section 8 of the Act.
- (5) Represents less than 0.1%.
- (6) Deemed interested by virtue of his shareholdings in SDS Tan Properties pursuant to Section 8 of the Act and the shareholdings of his son, Tan Kee Meng, pursuant to Section 59(11)(c) of the Act (assuming that he will fully subscribe for his Pink Form Allocations).

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5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

5.3.3 Profiles of key senior management

Save for the profiles of our Directors, which are disclosed in Section 5.2.2, the profiles of the other key senior management of our Group are as follows:

Tan Kee Meng, a Malaysian, aged 31, is our Chief Financial Officer. He is responsible for overseeing our Group's finance-related functions including the execution of financial reporting, compliance of tax matters and maintenance of internal controls.

He has 7 years of working experience in the field of accounting and finance. He graduated with a Bachelor of Commerce with double majors in accounting and finance from University of Queensland, Australia in 2010. He is a member of CPA Australia since 2015 and became a Chartered Accountant (Singapore) of Institute of Singapore Chartered Accountants in 2016. He is also a member of Malaysian Institute of Accountants since 2017.

In 2011, he started his career in KPMG LLP in Singapore as an Audit Associate and was subsequently promoted to Audit Manager in 2016. During his stint there, he was involved in conducting independent statutory financial audit works such as examining and evaluating internal control, and ensuring compliance with other statutory accounting standards and regulatory requirements. He left the firm in August 2017.

In September 2017, he joined our Group and assumed his current position.

Chi On Kang, a Malaysian, aged 59, is our Head of Corporate Planning and Marketing and has been with our Group since September 2017. He is responsible for spearheading our corporate planning, marketing efforts and driving sales for our wholesale channel.

He graduated with a Bachelor of Arts in Political Study from Lakehead University, Canada in 1983.

He started his career in 1983 with MBf Holdings Berhad as Credit Marketing Officer until 1984. He was involved in performing marketing and credit evaluation of corporate clients for leasing and hire purchase facilities at the Ipoh and Kuantan branches. He was relocated to Johor Bahru branch in 1984 where he was promoted as Branch Manager and was responsible for establishing and driving the business there until 1988.

In January 1989, he was seconded to Indonesia and re-designated as Senior Manager to assist in the establishment of the Grandy's fast food business and opening of new outlets. In June 1989, he left the company and returned to Malaysia. In July 1989, he joined Highland Chocolate & Confectionery Sdn Bhd as General Manager responsible for executing the company's turnaround plan and driving sales growth. He left the company in 1992 and re-joined the banking, finance and securities industry.

He worked as Branch Manager for Kewangan Industri Berhad (from 1993 to 1994), Oriental Bank Berhad (from 1994 to 1999) and Overseas Union Bank Berhad (from 1999 to 2002). In 2003, he joined OSK Investment Bank Berhad as State Manager responsible for overseeing the business at the Johor Bahru branch. He held the role until 2008. From 2009 to 2015, he worked in Indonesia after being seconded to PT RHB OSK Securities Indonesia to assume the role of a Director where he was tasked with overseeing the retail equity operations and setting up of new branches.

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

In 2016, he returned to Malaysia and joined Hong Leong Bank Berhad as Assistant General Manager, responsible for managing business development activities and building business relationship with large commercial banking clients in the southern region of Peninsular Malaysia. He was recruited to join our Group in September 2017 to drive our wholesale sales and marketing given his business network and past experiences in setting up new business units.

Thong Poh Loong, a Malaysian, aged 48, is our Production Manager. He is responsible for the planning, coordination and control of manufacturing processes at our production facilities and kitchens in our cafés.

He is a seasoned baking professional with more than 20 years of combined related working experience in Singapore and Malaysia. He obtained a Diploma in Civil Engineering from Politeknik Kota Bharu in 1993. Upon graduation, he joined a construction company, Takenaka Corporation as Site Supervisor until 1997.

In 1997, he decided to change his career path and pursue his interest in baking and pastry arts. He joined King's Confectionery Sdn Bhd in 1997 to gain practical working experience in the baking industry. From 1997 to 1999, he was attached to King's Confectionery Sdn Bhd as Production Supervisor responsible for overseeing the baking operations at an outlet in Kuala Lumpur. In 1999, he joined his family business in Ipoh, selling bakery products until 2002. In 2002, he co-founded Delijoy Bakery and worked as Bakery Chef until his exit from the business in 2004. From 2005 to 2008, he was Bakery Chef with Silibin Cakes & Bakery. From 2008 to 2010, he was attached to Marina Bay Sands in Singapore as Pastry Chef where he was involved in developing new pastries. He returned to Malaysia to re-join Silibin Cakes & Bakery in 2010 as Production Manager responsible for managing the production of bakery products as well as other related operational processes such as procurement and inventory management. He left the company in 2012.

From 2012 to 2017, he worked for various F&B companies under a Singaporean investment company with F&B portfolio, Commonwealth Capital Pte Ltd. He was Assistant Production Manager in New York City Bagel Factory Pte Ltd from 2012 to 2014 where he was responsible for planning and organising production schedules, assessing project and resource requirements. He was transferred to Swiss-Treats Pte Ltd in 2014 and Commonwealth Culinary Creations Pte Ltd in 2015 where he was responsible for managing production, procurement and quality control as well as ensuring compliance to food safety and halal standards in both companies.

In January 2017, he left Commonwealth Culinary Creations Pte Ltd to join our Group and assumed his current position.

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5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

Tan Siau Ling, a Malaysian, aged 41, is our Project Manager and is responsible for managing our wholesale production operations and setting up new wholesale production lines.

She has 17 years of working experience in quality assurance. She graduated with a Bachelor of Science (Honours) in Industrial Science from Universiti Teknologi Malaysia in 2001.

In 2001, she started her career in URC Snack Food (Malaysia) Sdn Bhd as a Quality Assurance cum Research and Development Executive where she undertook R&D activities such as conducting market research, developing and testing new snacks, evaluating their potential for commercialisation, performing cost analysis and evaluation as well as designing new packaging. She left the company in 2004.

From 2004 to 2016, she was attached to Standard Confectionery Sdn Bhd (a subsidiary of High-5 Conglomerate Berhad). During her tenure there, she was Quality Assurance Manager from 2004 to 2012 and Operations Manager from 2012 to 2016 where she was responsible for purchasing and production functions.

In June 2017, she joined our Group and assumed her current position.

5.3.4 Principal business performed outside our Group

None of our key senior management has any other principal directorship and/or principal business activities performed outside our Group as at LPD.

5.3.5 Key senior management's remuneration and benefits

The aggregate remuneration and material benefits-in-kind paid and proposed to be paid to our key senior management for services rendered in all capacities to our Group for FYE 2019 and 2020 are as follows:

FYE 2019	(in bands of RM50,000)		Total
	Remuneration	Benefits-in-kind	
	RM'000	RM'000	RM'000
Tan Kee Meng	250-300	0-50	300-350
Chi On Kang	200-250	0-50	200-250
Thong Poh Loong	100-150	0-50	100-150
Tan Siau Ling	100-150	0-50	100-150

PROPOSED FOR FYE 2020	(in bands of RM50,000)		Total
	⁽¹⁾ Remuneration	Benefits-in-kind	
	RM'000	RM'000	RM'000
Tan Kee Meng	250-300	0-50	300-350
Chi On Kang	200-250	0-50	250-300
Thong Poh Loong	100-150	0-50	150-200
Tan Siau Ling	100-150	0-50	150-200

Note:

- (1) Bonuses for FYE 2020 are not included. Such bonuses, if any, will be determined later depending on the performance of our Group, subject to the recommendation of the Remuneration Committee and approved by our Board.

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

The remuneration of our key senior management including salaries, bonus, fees and allowances as well as other benefits, must be reviewed and recommended by our Remuneration Committee and subsequently, be approved by our Board.

5.4 BOARD PRACTICE

5.4.1 Board

Our Board has adopted the following responsibilities for effective discharge of its functions:

- (a) To provide leadership and oversee the overall conduct of our Group's businesses to ensure that our businesses are being properly managed;
- (b) To review and adopt strategic plans for our Group and to ensure that such strategic plans and the risk, performance and sustainability thereon are effectively integrated and appropriately balanced;
- (c) To review and adopt corporate governance best practices in relation to risk management, legal and compliance management and internal control systems to safeguard our Group's reputation, and our employees and assets and to ensure compliance with applicable laws and regulations;
- (d) To ensure that our Company has effective Board committees as required by the applicable laws, regulations, rules, directives and guidelines and as recommended by the Malaysian Code of Corporate Governance;
- (e) To review and approve our annual business plans, financial statements and annual reports;
- (f) To monitor the relationship between our Group and our management, shareholders and stakeholders, and to develop and implement an investor relations programme or shareholders' communications policy for our Group; and
- (g) To appoint our Board committees, to delegate powers to such committees, to review the composition, performance and effectiveness of such committees, and to review the reports prepared by our Board committees and deliberate on the recommendations thereon.

In accordance with our Constitution, an election of Directors shall take place each year at the annual general meeting of the Company, where one-third of the Directors for the time being, or, if their number is not 3 or a multiple of 3, then the number nearest to one-third shall retire from office and be eligible for re-election. This is provided always that all Directors shall retire from office once at least in each 3 years but shall be eligible for re-election. A retiring Director shall retain office until the close of the meeting at which he retires.

All our Directors were only appointed to our Board in September 2018, and have served for less than one year as at LPD. All our Directors will retire and be eligible for re-election at our forthcoming first annual general meeting. Thereafter, at every subsequent annual general meeting, one-third of our Directors at that time, or, if their number is not 3 or a multiple of 3, then the number nearest to one-third shall retire from office and be eligible for re-election.

The members of our Board are set out in Section 5.2.

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

5.4.2 Audit Committee

The main function of our Audit Committee is to assist our Board in fulfilling its responsibility to oversee our Group's accounting and financial reporting matters. The Audit Committee's duties and responsibilities as stated in its terms of reference include, amongst others, the following:

- (a) To review the engagement, compensation, performance, qualifications and independence of our external auditors, its conduct of the annual statutory audit of our financial statements, and the engagement of external auditors for all other services;
- (b) To review and approve our quarterly and annual financial statements for recommendation to our Board, focusing in particular on any changes in or implementation of major accounting policies and practices, significant and unusual events, significant adjustments arising from the audit, going concern assumption and compliance with accounting standards and other regulatory or legal requirements;
- (c) To review any related party transactions entered into by our Group and any conflict of interest situations that may arise within our Group;
- (d) To consider the major findings of internal investigations and management's response; and
- (e) To perform such other functions as may be requested by our Board.

The recommendations of our Audit Committee are subject to the approval of our Board.

The members of our Audit Committee as at LPD are as follows:

Name	Designation	Directorship
Phang Sze Fui	Chairwoman	Independent Non-Executive Director
Lim Pang Kiam	Member	Independent Non-Executive Chairman
Azahar bin Baharudin	Member	Independent Non-Executive Director
Dato' Albert Ding Choo Earn	Member	Independent Non-Executive Director

Our Board will review the composition, performance and effectiveness of our Audit Committee annually.

5.4.3 Remuneration Committee

The main function of our Remuneration Committee is to assist our Board in fulfilling its responsibility on matters relating to our Group's compensation, bonuses, incentives and benefits. The Remuneration Committee's duties and responsibilities as stated in its terms of reference include, amongst others, the following:

- (a) To recommend a framework of remuneration for the Directors and key senior management for the Board's approval. There should be a balance in determining the remuneration package, which should be sufficient to attract and retain Directors of calibre, and yet not excessive. The framework should cover all aspects of remuneration including Director's fee, salaries, allowance, bonuses, options and benefits-in-kind;

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

- (b) To recommend specific remuneration packages for Executive Directors. The remuneration package should be structured such that it is competitive. Salary scales drawn up should be within the scope of the general business policy and not be dependent on short-term performance to avoid incentives for excessive risk-taking. As for Non-Executive Directors and Independent Directors, the level of remuneration should be linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board;
- (c) To ensure the establishment of a formal and transparent procedure for developing policies, strategies and framework for the remuneration of Executive Directors, management and staff; and
- (d) To perform any other functions as may be requested by the Board.

The recommendations of our Remuneration Committee are subject to the approval of our Board.

The members of our Remuneration Committee as at LPD are as follows:

Name	Designation	Directorship
Azahar bin Baharudin	Chairman	Independent Non-Executive Director
Lim Pang Kiam	Member	Independent Non-Executive Chairman
Dato' Albert Ding Choo Earn	Member	Independent Non-Executive Director

5.4.4 Nominating Committee

The Nominating Committee's duties and responsibilities as stated in its terms of reference include, amongst others, the following:

- (a) To assist our Board in the effective discharge of its responsibility to ensure that our Board is of an effective composition, size and commitment to adequately discharge its responsibilities and duties;
- (b) To ensure appropriate selection criteria and processes and to identify and recommend to our Board, candidates for directorships of our Company and members of the relevant Board committees;
- (c) To evaluate the effectiveness of our Board and the relevant Board committees; and
- (d) To ensure an appropriate framework and succession planning for our Board.

The recommendations of our Nominating Committee are subject to the approval of our Board.

The members of our Nominating Committee as at LPD are as follows:

Name	Designation	Directorship
Lim Pang Kiam	Chairman	Independent Non-Executive Chairman
Azahar bin Baharudin	Member	Independent Non-Executive Director
Dato' Albert Ding Choo Earn	Member	Independent Non-Executive Director

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

5.4.5 Risk Management Committee

Our Board has the overall responsibility for risk oversight and risk management within the Group. However, as a committee of our Board, our Risk Management Committee shall lead our strategic direction in the management of our business risks, including oversight on the establishment and implementation of a risk management framework and reviewing the effectiveness of the risk management framework in identifying and managing risks and internal processes which include but not limited to ensuring the adequacy of risk management policy and infrastructure to facilitate the implementation of action plans for risk management.

The objectives of the framework are to ensure the provision of quality product and services and monitor the risk culture and processes throughout the Group to take advantage of opportunities while managing risks that may adversely affect our reputation and achievement of business objectives.

The duties and responsibilities as stated in the terms of reference of our Risk Management Committee include the following:

- (a) To oversee and recommend the risk management policies and procedures of our Group;
- (b) To review and recommend changes as needed to ensure that our Group has in place at all times a risk management policy which addresses the strategic, operational, financial and compliance risks;
- (c) To implement and maintain a sound risk management framework which identifies, assesses, manages and monitors our Group's business risks;
- (d) To set reporting guidelines for management to report to the committee on the effectiveness of our Group's management of its business risks;
- (e) To review the risk profile of our Group including all our subsidiaries and to evaluate the measures taken to mitigate the business risks; and
- (f) To review the adequacy of management response to issues identified in risk registers, ensuring that our risks are managed within our Group's risk appetite.

The recommendations of our Risk Management Committee are subject to the approval of our Board.

The members of our Risk Management Committee as at the LPD are as follows:

Name	Designation	Directorship
Dato' Albert Ding Choo Earn	Chairman	Independent Non-Executive Director
Lim Pang Kiam	Member	Independent Non-Executive Chairman
Phang Sze Fui	Member	Independent Non-Executive Director
Tan Kee Jin	Member	Executive Director

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

5.5 RELATIONSHIPS AND/ OR ASSOCIATIONS

Save as disclosed below, there are no family relationships (as defined under Section 197 of the Act) or association between or amongst our Promoters, substantial shareholders, Directors and key senior management as at LPD:

- (a) Tan Kim Seng and Tan Kim Chai, who are our Promoters, substantial shareholders and Executive Directors are brothers;
- (b) Teou Chau Hoyk who is our Promoter is the sister-in-law to Tan Kim Seng and Tan Kim Chai. She is the widow of Tan Kim Lai, the late brother of Tan Kim Seng and Tan Kim Chai;
- (c) Tan Yon Haw, Tan Yong Thye, Tan Yong Ping and Tan Yong Herng are our Promoters. Tan Yon Haw is also our Executive Director and substantial shareholder. Tan Yong Thye is our Marketing Manager and substantial shareholder while Tan Yong Ping is our Assistant Production Manager. The aforementioned are siblings and children of Teou Chau Hoyk. They are also nephews of Tan Kim Seng and Tan Kim Chai; and
- (d) Tan Kee Jin and Tan Kee Meng are our Executive Director and Chief Financial Officer respectively. They are siblings and children of Tan Kim Seng. They are also nephews of Tan Kim Chai and Teou Chau Hoyk.

5.6 EXISTING OR PROPOSED SERVICE AGREEMENTS

As at LPD, there are no existing or proposed service agreements entered into between our Company or any companies within our Group with our Directors or key senior management.

5.7 DECLARATION FROM PROMOTERS, DIRECTORS AND KEY SENIOR MANAGEMENT

As at LPD, none of our Promoters, Directors or key senior management is or has been involved in any of the following events (whether within or outside Malaysia):

- (a) In the last 10 years, a petition under any bankruptcy or insolvency law filed (and not struck out) against such person or any partnership in which he was a partner or any corporation of which he was a Director or a member of key senior management;
- (b) Disqualified from acting as a Director of any corporation, or from taking part directly or indirectly in the management of any corporation;
- (c) In the last 10 years, charged and/or convicted in a criminal proceeding or is a named subject of a pending criminal proceeding;
- (d) In the last 10 years, any judgment that was entered against him, or finding of fault, misrepresentation, dishonesty, incompetence or malpractice on his part, involving a breach of any law or regulatory requirement that relates to the capital market;
- (e) In the last 10 years, was the subject of any civil proceeding, involving an allegation of fraud, misrepresentation, dishonesty, incompetence or malpractice on his part that relates to the capital market;

5. INFORMATION ON PROMOTERS, SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND KEY SENIOR MANAGEMENT (*Cont'd*)

- (f) Being the subject of any order, judgment or ruling of any court, government, or regulatory authority or body temporarily enjoining him from engaging in any type of business practice or activity;
- (g) Being the subject of any current investigation or disciplinary proceeding, or in the last 10 years has been reprimanded or issued any warning by any regulatory authority, securities or derivatives exchange, professional body or government agency; or
- (h) Have any unsatisfied judgment against them.

5.8 BENEFITS PAID OR INTENDED TO BE PAID

Save for our Directors' remuneration and benefits as disclosed in Section 5.2.4, there is no amount and benefit that has been or is intended to be paid or given to our Promoters, Directors and/or substantial shareholders within the 2 years preceding the date of this Prospectus.

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6. GENERAL INFORMATION ON OUR GROUP

6.1 INFORMATION ON SDSG

SDSG was incorporated in Malaysia on 1 August 2017 under the Act as a public limited company under our present name.

We are an investment holding company. Through our subsidiaries, we are principally involved in the manufacturing and distributing of bakery products as well as operating F&B outlets. Please refer to Section 6.3 for detailed information on the principal activities of our subsidiaries.

There has been no material change in the manner in which our Company conducts its business or activities since our incorporation up to LPD. Please refer to Section 7.1 for detailed information of our Group's history.

As at LPD, our share capital is RM30,572,340 comprising 301,527,100 Shares, all of which have been issued and fully paid-up. The movements in our share capital since the date of our incorporation are set out below:

Date of allotment	No. of Shares allotted	Consideration/ Types of Issue	Cumulative share capital RM
1 August 2017	100	RM10/Subscribers' shares	10
5 July 2019	301,527,000	RM30,572,330/ Consideration for the Acquisitions	30,572,340

As at LPD, we do not have any outstanding warrants, options, convertible securities and uncalled capital. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

Upon completion of our IPO, our enlarged share capital will increase to RM54,560,604 comprising 405,823,900 Shares from the issuance of 104,296,800 IPO Shares.

6.2 DETAILS OF OUR RESTRUCTURING

To formalise our listing group in preparation of our Listing, we have undertaken the Acquisitions.

6.2.1 Acquisitions

On 21 September 2018, SDS B&C entered into a share sale agreement with SDS Tan Properties to acquire 51.0% equity interest in City Cake for a consideration of RM445,200, details as set out in Section 6.2.1(a).

Separately, our Company entered into 3 separate share sale agreements all dated 21 September 2018 to acquire the entire equity interest of SDS Food, SDS Enterprise and Super Arrow for an aggregate consideration of RM30,572,330, details as set out in Section 6.2.1(b) to (d).

6. GENERAL INFORMATION ON OUR GROUP (Cont'd)

A summary of the Acquisitions are as follows:

Acquiror	Acquiree	Equity interest acquired	Audited NA as at 31 March 2018	Purchase consideration	No. of SDS Food shares issued
			RM	RM	
SDS B&C	City Cake	51.0	872,950	445,200	42,890

Acquiror	Acquiree	Equity interest acquired	Audited NA as at 31 March 2018	Purchase consideration	No. of Shares issued
			RM	RM	
SDSG	SDS Food	100.0	⁽¹⁾ 28,994,889	28,994,890	285,752,600
SDSG	SDS Enterprise	100.0	26,357	26,360	263,600
SDSG	Super Arrow	100.0	1,551,076	1,551,080	15,510,800
			30,572,322	30,572,330	301,527,000

Note:

- ⁽¹⁾ Based on the audited consolidated NA position of SDS Food as at 31 March 2018 of RM28,549,689 and incorporating the additional capitalisation from the Acquisition of City Cake of RM445,200.

The Acquisition of City Cake was completed on 4 July 2019 and the Acquisition of SDS Food, Acquisition of SDS Enterprise and Acquisition of Super Arrow were completed on 5 July 2019. Please refer to Section 6.2.2 for a graphical presentation of our group structure before and after Acquisitions.

(a) Acquisition of City Cake

On 21 September 2018, SDS B&C entered into an agreement to acquire 51.0% equity interest in City Cake comprising 62,450 ordinary shares from SDS Tan Properties for a total purchase consideration of RM445,200. The purchase consideration was arrived at willing-buyer willing-seller basis, taking into consideration the audited NA position of City Cake as at 31 March 2018 of RM872,950.

The purchase consideration was settled by SDS Food on behalf of SDS B&C via the issuance of 42,890 new shares in SDS Food at an issue price of approximately RM10.38 per share. The issue price of approximately RM10.38 per share is based on the audited consolidated NA per share of SDS Food as at 31 March 2018. Arising from this, there is an inter-company amount of RM445,200 owing by SDS B&C to SDS Food, which will be settled in due course from the internally-generated funds of SDS B&C.

(b) Acquisition of SDS Food

On 21 September 2018, we entered into an agreement to acquire the entire equity interest in SDS Food comprising 2,792,890 ordinary shares after the Acquisition of City Cake for a total purchase consideration of RM28,994,890. The purchase consideration was arrived at willing-buyer willing-seller basis, taking into consideration the adjusted audited consolidated NA position of SDS Food as at 31 March 2018 of RM28,994,889 after incorporating the additional capitalisation from the Acquisition of City Cake of RM445,200. The Acquisition of SDS Food is conditional upon the Acquisition of City Cake.

6. GENERAL INFORMATION ON OUR GROUP (Cont'd)

Details of the SDS Food Vendors and the number of shares acquired are as follows:

Vendor	No. of shares acquired	% of share capital	Purchase consideration	No. of Shares issued
			RM	
Tan Kim Seng	916,667	32.8	9,514,400	93,767,030
Tan Kim Chai	916,666	32.8	9,514,390	93,766,930
Teou Chau Hoyk	183,334	6.6	1,902,887	18,753,470
Tan Yon Haw	183,334	6.6	1,902,887	18,753,470
Tan Yong Thye	183,333	6.5	1,902,875	18,753,360
Tan Yong Ping	183,333	6.5	1,902,875	18,753,360
Tan Yong Heng	183,333	6.5	1,902,875	18,753,360
SDS Tan Properties	42,890	1.7	451,701	4,451,620
	2,792,890	100.0	28,994,890	285,752,600

The purchase consideration was satisfied by the issuance of 285,752,600 new Shares at an issue price of approximately RM0.10 per Share. The new Shares issued pursuant to the Acquisition of SDS Food rank *pari passu* in all respects with our existing Shares including voting rights and will be entitled to all rights and dividends and/or other distributions, the entitlement date of which is subsequent to the date of issuance of the new Shares.

(c) Acquisition of SDS Enterprise

On 21 September 2018, we entered into an agreement to acquire the entire equity interest in SDS Enterprise comprising 2 ordinary shares for a total purchase consideration of RM26,360. The purchase consideration was arrived at willing-buyer willing-seller basis, taking into consideration the audited NA position of SDS Enterprise as at 31 March 2018 of RM26,357.

Details of the vendors of SDS Enterprise and the number of shares acquired are as follows:

Vendor	No. of shares acquired	% of share capital	Purchase consideration	No. of Shares issued
			RM	
Tan Kee Jin	1	50.0	13,180	131,800
Tan Yon Haw	1	50.0	13,180	131,800
	2	100.0	26,360	263,600

The purchase consideration was satisfied by the issuance of 263,600 new Shares at an issue price of RM0.10 per Share. The new Shares issued pursuant to the Acquisition of SDS Enterprise rank *pari passu* in all respects with our existing Shares including voting rights and will be entitled to all rights and dividends and/or other distributions, the entitlement date of which is subsequent to the date of issuance of the new Shares.

6. GENERAL INFORMATION ON OUR GROUP (Cont'd)**(d) Acquisition of Super Arrow**

On 21 September 2018, we entered into an agreement to acquire the entire equity interest in Super Arrow comprising 100 ordinary shares for a total purchase consideration of RM1,551,080. The purchase consideration was arrived at willing-buyer willing-seller basis, taking into consideration the audited NA position of Super Arrow as at 31 March 2018 of RM1,551,076.

Details of the vendors of Super Arrow and the number of shares acquired are as follows:

Vendor	No. of shares acquired	% of share capital	Purchase consideration	No. of Shares issued
			RM	
Tan Kim Seng	34	34.0	527,370	5,273,700
Tan Kim Chai	33	33.0	511,860	5,118,600
Tan Yong Thye	17	17.0	263,680	2,636,800
Tan Yon Haw	16	16.0	248,170	2,481,700
	100	100.0	1,551,080	15,510,800

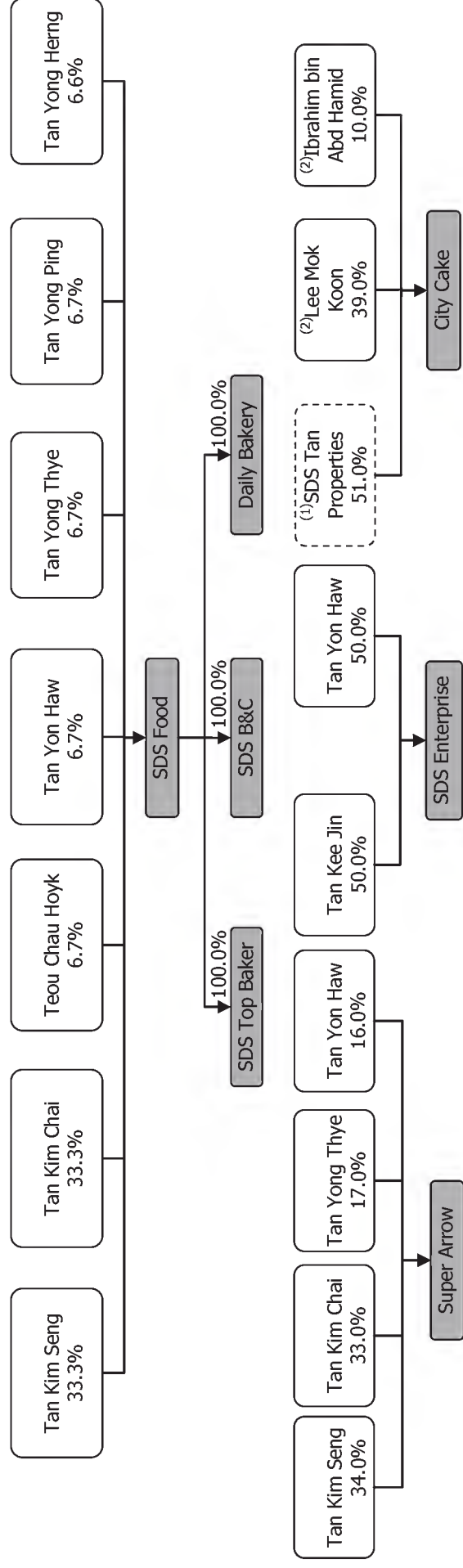
The purchase consideration was satisfied by the issuance of 15,510,800 new Shares at an issue price of RM0.10 per Share. The new Shares issued pursuant to the Acquisition of Super Arrow rank *pari passu* in all respects with our existing Shares including voting rights and will be entitled to all rights and dividends and/or other distributions, the entitlement date of which is subsequent to the date of issuance of the new Shares.

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6. GENERAL INFORMATION ON OUR GROUP (Cont'd)

6.2.2 Group structure

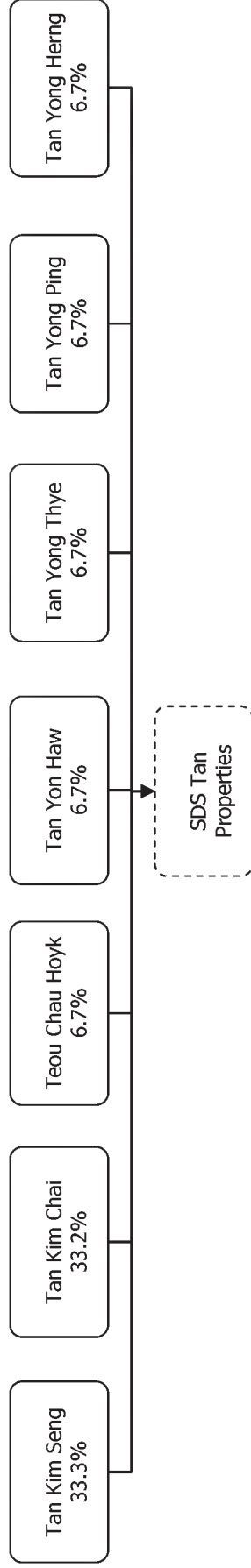
(a) Before the Acquisitions



6. GENERAL INFORMATION ON OUR GROUP (Cont'd)

Notes:

(1) The shareholders of SDS Tan Properties are as follows:

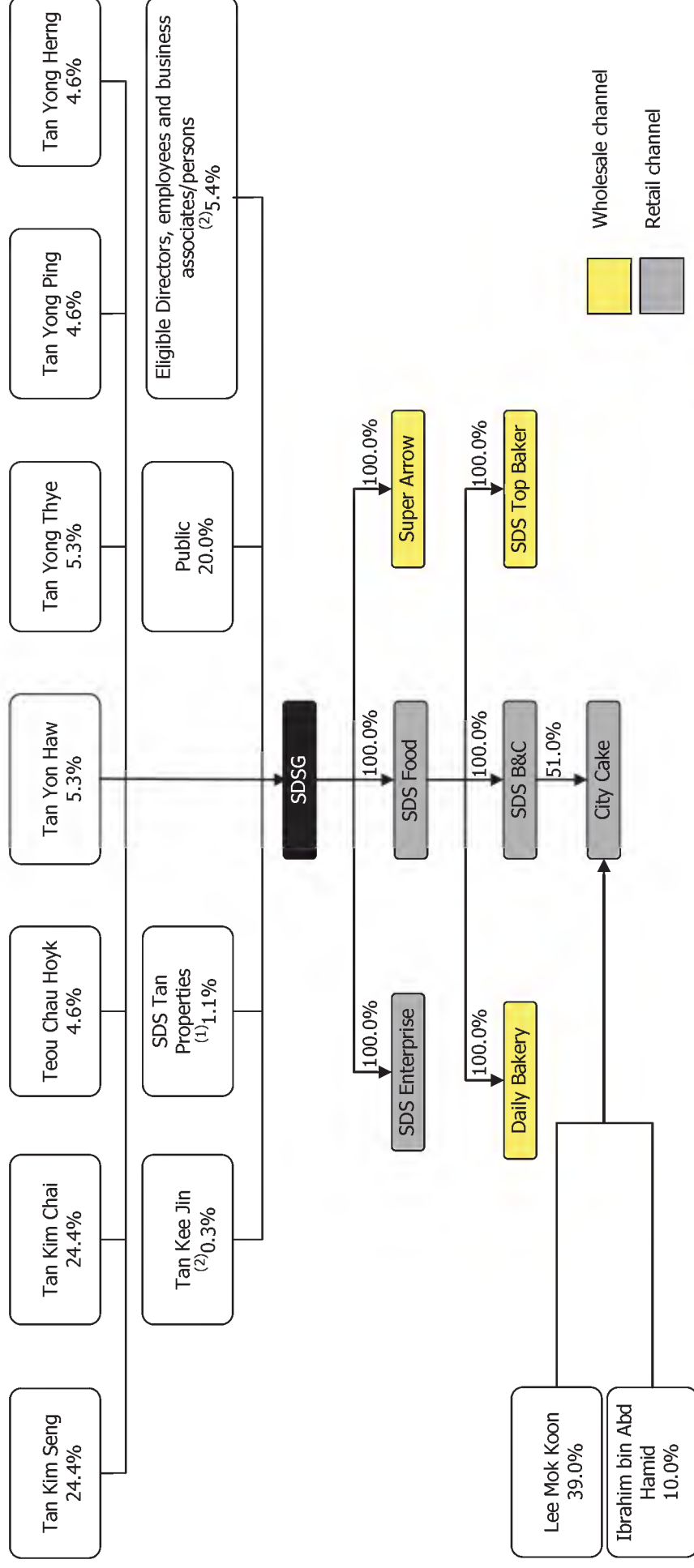


(2) They are joint-venture partners of SDS Tan Properties in City Cake.

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6. GENERAL INFORMATION ON OUR GROUP (Cont'd)

(b) After Acquisitions and Public Issue



Notes:

(1) Please refer to Note (1) in Section 6.2.2(a) for the shareholdings structure of SDS Tan Properties.

(2) Assuming that all the eligible Directors, employees and business associates/ persons will subscribe for the Pink Form Allocations. The shareholding of Tan Kee Jin who is our Executive Director and Promoter is separately disclosed under his own name.

6. GENERAL INFORMATION ON OUR GROUP (Cont'd)**6.3 SUBSIDIARIES**

As at LPD, we do not have any associated companies. Details of our subsidiaries are summarised as follows:

Company	Company No.	Date / Place of incorporation	Principal place of business	Effective equity interest %	Principal activities
<u>Held by SDSG</u>					
SDS Food	243124-V	25 June 1992/ Malaysia	Malaysia	100.0	Manufacturing and distributing of bakery products
SDS Enterprise	1143371-K	6 May 2015/ Malaysia	Malaysia	100.0	Licensor of F&B outlets
Super Arrow	200819157G	1 October 2008/ Singapore	Singapore	100.0	Wholesale of bakery products in Singapore
<u>Held by SDS Food</u>					
Daily Bakery	190769-H	12 December 1989/ Malaysia	Malaysia	100.0	Manufacturing and distributing of bakery products
SDS Top Baker	794534-T	5 November 2007/ Malaysia	Malaysia	100.0	Manufacturing and distributing of bakery products
SDS B&C	359313-D	13 September 1995/ Malaysia	Malaysia	100.0	Operator of F&B outlets
<u>Held by SDS B&C</u>					
City Cake	517331-P	19 June 2000/ Malaysia	Malaysia	51.0	Operator of F&B outlet

6. GENERAL INFORMATION ON OUR GROUP (*Cont'd*)

6.4 MATERIAL CONTRACTS

Save for the material contracts disclosed below, there are no contracts which are or may be material (not being contracts entered into in the ordinary course of business) which have been entered into by our Company or our subsidiaries during FYE 2016 to 2019 and up to the date of this Prospectus:

- (a) Share sale agreement dated 15 February 2016 ("SSA") and supplemental agreement dated 20 September 2017 between SDS Food and Haw See Ken, Lee Boon Ja, Lee Boon Nam, Lee Shu Jun, Lee Shu Ling, Tan Choo Mit, Lee Boon How, Lee Boon Huat and Lee Boon Pok (collectively referred to as "Daily Bakery Vendors") for the acquisition by SDS Food of the entire equity interest of Daily Bakery for a consideration of RM31.6⁽²⁾ million, which was settled in the following manner:
 - (i) Initial cash payment of RM10.6 million;
 - (ii) Second payment of RM6.0 million to be set-off by the drawdown of loan by Daily Bakery of RM6.0 million after the execution of the share sale agreement dated 15 February 2016⁽¹⁾;
 - (iii) Cash instalment payment of RM10.0 million over a period of 24 months commencing from 20 October 2016; and
 - (iv) Cash payment of RM5.0 million upon disposal of 2 identified factories owned by Daily Bakery in Johor Bahru.

The acquisition of Daily Bakery was deemed completed on 1 May 2016. The last cash instalment in relation to item (iii) above is to be paid by SDS Food on or before 30 September 2018 and was paid on 19 September 2018.

Notes:

- (1) Pursuant to the terms of the SSA, the second payment of RM6.0 million will be reduced by the drawdown of loan for working capital of RM6.0 million. However, the drawdown of loan by Daily Bakery took place prior to the date of the SSA and Daily Bakery has started servicing the loan since then. As a result of such, the total loan assumed by SDS Food as at the date of the SSA was RM5.8 million and the balance RM0.2 million was settled by SDS Food in cash;
- (2) Given that the mode of settlement of the purchase consideration involved an assumption of a RM5.8 million loan by SDS Food, the effective purchase consideration to be paid to Daily Bakery Vendors is RM25.8 million;
- (b) Form 32A (Form of Transfer of Securities) dated 18 March 2016 in respect of the disposal of the entire equity interest in SDS Tan Properties by SDS Food to Tan Kim Seng, Tan Kim Chai, Teou Chau Hoyk, Tan Yon Haw, Tan Yong Thye, Tan Yong Ping and Tan Yong Heng on 18 March 2016 for a cash consideration of RM1.7 million;
- (c) Form 32A (Form of Transfer of Securities) dated 18 March 2016 in respect of the acquisition of the entire equity interest in SDS B&C by SDS Food from Tan Kim Seng, Tan Kim Chai and Teou Chau Hoyk on 29 March 2016 for a cash consideration of RM1.7 million;

6. GENERAL INFORMATION ON OUR GROUP (*Cont'd*)

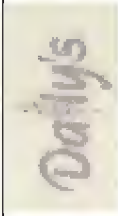





- (d) Sale and purchase agreement dated 18 January 2018 between Daily Bakery as Vendor and KSW Gemilang Sdn Bhd as Purchaser for the disposal of 2 identified factories in Johor by Daily Bakery to the Purchaser at a cash consideration of RM4.8 million, which was completed on 30 March 2018;
- (e) Deed of Assignment dated 30 March 2018 between Tan Kim Seng and Tan Kim Chai as Assignors and SDS Food as Assignee, where the Assignors who own the intellectual property rights to the trademark 'SDS' in classes 16 and 43 assigned all their rights to the said intellectual property rights to the Assignee for a nominal consideration of RM1.00;
- (f) Deed of Assignment dated 30 March 2018 between Tan Kim Seng and Tan Kim Chai as Assignors and SDS Top Baker as Assignee, where the Assignors who own the intellectual property rights to the trademark 'Top Baker' in classes 16, 30 and 35 assigned all their rights to the said intellectual property rights to the Assignee for a nominal consideration of RM1.00;
- (g) Share sale agreement dated 21 September 2018 entered into between SDS B&C and SDS Tan Properties for the Acquisition of City Cake, which was completed on 4 July 2019;
- (h) Share sale agreement dated 21 September 2018 entered into between our Company and SDS Food Vendors for the Acquisition of SDS Food, which was completed on 5 July 2019;
- (i) Share sale agreement dated 21 September 2018 entered into between our Company and Tan Kee Jin and Tan Yon Haw for the Acquisition of SDS Enterprise, which was completed on 5 July 2019;
- (j) Share sale agreement dated 21 September 2018 entered into between our Company and Tan Kim Seng, Tan Kim Chai, Tan Yong Thye and Tan Yon Haw for the Acquisition of Super Arrow, which was completed on 5 July 2019;
- (k) Underwriting Agreement dated 18 July 2019 entered into between our Company and M&A Securities for the underwriting of 43,423,200 IPO Shares for an underwriting commission of 3.0% of the IPO Price multiplied by the number of IPO Shares being underwritten; and
- (l) Sale and purchase agreement dated 24 October 2018 between SDS Top Baker as Vendor and Doshin Rubber Products (M) Sdn Bhd as Purchaser for the disposal of 2 identified factories in Klang, Selangor by SDS Top Baker to the Purchaser at a cash consideration of RM5.0 million, which was completed on 25 January 2019.

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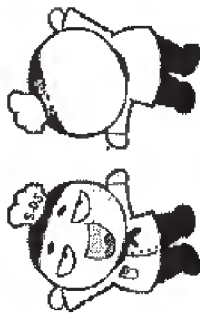
6. GENERAL INFORMATION ON OUR GROUP (*Cont'd*)

6.5 TRADEMARKS

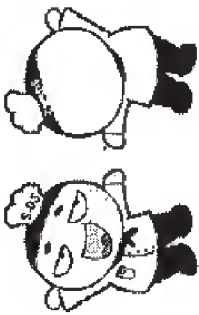



Save as disclosed below, we do not have any other trademarks as at LPD:

No.	Trademark	Applicant(s) or registered owner(s)	Trademark application no./ Class	Place of application or registration	Approving authority	Status/ Registration validity
(a)		Daily Bakery	2012053649/ 30 ⁽¹⁾	Malaysia	MyIPO	Registered/ 28 May 2012 – 28 May 2022 ⁽⁵⁾
(b)		Daily Bakery	2012060465/ 35 ⁽²⁾	Malaysia	MyIPO	Registered/ 31 December 2012 – 31 December 2022 ⁽⁵⁾
(c)		Daily Bakery	T1207597H/ 30 ⁽¹⁾	Singapore	Registrar of Trade Marks Singapore	Registered/ 28 May 2012 – 28 May 2022 ⁽⁵⁾
(d)		Daily Bakery	T1220094B/ 35 ⁽²⁾	Singapore	Registrar of Trade Marks Singapore	Registered/ 31 December 2012 – 31 December 2022 ⁽⁵⁾
(e)		Daily Bakery	2018061319/ 16 ⁽³⁾	Malaysia	MyIPO	Application filed, pending examination report ⁽⁶⁾
(f)		Daily Bakery	2018061320/ 30 ⁽¹⁾	Malaysia	MyIPO	Application filed, pending examination report ⁽⁶⁾

6. GENERAL INFORMATION ON OUR GROUP (*Cont'd*)

No.	Trademark	Applicant(s) or registered owner(s)	Trademark application no./ Class	Place of application or registration	Approving authority	Status/ Registration validity
(g)		Daily Bakery	2018061323/ 35 ⁽²⁾	Malaysia	MyIPO	Application filed, pending examination report ⁽⁶⁾
(h)		SDS Food	2015056332/ 16 ⁽³⁾	Malaysia	MyIPO	Registered/ 25 April 2015 – 25 April 2025
(i)		SDS Food	2015056333/ 43 ⁽⁴⁾	Malaysia	MyIPO	Registered/ 25 April 2015 – 25 April 2025
(j)		SDS Food	2019017389/ 30 ⁽¹⁾	Malaysia	MyIPO	Application filed, pending examination report ⁽⁷⁾
(k)		SDS Food	2019017390/ 35 ⁽²⁾	Malaysia	MyIPO	Application filed, pending examination report ⁽⁷⁾
(l)		SDS Food	2018072894/ 30 ⁽¹⁾	Malaysia	MyIPO	Application filed, pending examination report ⁽⁸⁾

6. GENERAL INFORMATION ON OUR GROUP (Cont'd)

No. (m)	Trademark	Applicant(s) or registered owner(s)	Trademark application no./ Class	Place of application or registration	Approving authority	Status/ Registration validity
						Application filed, pending examination report ⁽⁶⁾
		SDS Food	2018072895/ 43 ⁽⁴⁾	Malaysia	MyIPO	
(n)		SDS Top Baker	2015056331/ 16 ⁽³⁾	Malaysia	MyIPO	Registered/ 25 April 2015 – 25 April 2025
(o)		SDS Top Baker	08022158/ 30 ⁽¹⁾	Malaysia	MyIPO	Registered/ 1 August 2018 – 6 November 2028
(p)		SDS Top Baker	08022157/ 35 ⁽²⁾	Malaysia	MyIPO	Registered/ 1 August 2018 – 6 November 2028

Notes:

- (1) Refers to coffee, tea, cocoa and artificial coffee; rice; tapioca and sago; flour and preparations made from cereals; bread, pastries and confectionery; edible ices; sugar, honey, treacle; yeast, baking-powder; salt; mustard; vinegar, sauces (condiments); spices and ice (frozen water).
- (2) Refers to advertising; business management; business administration and office functions.
- (3) Refers to paper and cardboard; printed matter; bookbinding material; photographs; stationery and office requisites, except furniture; adhesives for stationery or household purposes; drawing materials and materials for artists; paintbrushes; instructional and teaching materials; plastic sheets, films and bags for wrapping and packaging; printers' type as well as printing blocks.
- (4) Refers to services such as provision of food and drinks.

6. GENERAL INFORMATION ON OUR GROUP (*Cont'd*)

- (5) We do not intend to renew this registration upon their expiry as we no longer use this trademark.
- (6) Daily Bakery had on 31 May 2018 submitted the registration application to the Registrar of Trade Marks to safeguard the interest of its mark. As at LPD, the application is still under examination by MyIPO. Currently, there is no plan to register our trademarks in Singapore as the sales of our own branded products in Singapore represent less than 3.0% of our Group's total revenue. Further, we do not intend to enter into direct distribution to retailers in Singapore as it would require separate licenses and logistical support in Singapore.
- (7) SDS Food had on 14 May 2019 submitted the registration application to the Registrar of Trade Marks to safeguard the interest of its mark. As at LPD, the application is still under examination by MyIPO.
- (8) SDS Food had on 30 October 2018 submitted the registration application to the Registrar of Trade Marks to safeguard the interest of its mark. As at LPD, the application is still under examination by MyIPO.

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6. GENERAL INFORMATION ON OUR GROUP (Cont'd)**6.6 PPE****6.6.1 Properties owned and rented by our Group**

Further details of properties owned and rented by our Group are set out in Appendix II.

6.6.2 Acquisition of properties

We did not enter into any sale and purchase agreement to acquire any properties during FYE 2016 to 2019 up to LPD.

6.6.3 Production capacity, material machinery and factory equipment**(a) Production capacity and utilisation**

The following table lists our Group's production capacity and its utilisation during FYE 2019:

Type of products	No. of production lines	Location	Actual production package per annum	Machine capacity package per annum	Utilisation rate in FYE 2019	
						%
Sandwich loaf 400gm	1	Kempas	2,300,000	2,500,000		92.0
Sandwich loaf 550gm	1	Seremban	13,800,000	21,900,000		63.0
Bun ⁽¹⁾	1	Kempas	6,200,000	12,500,000		49.6
Filled bun ⁽¹⁾	1	Kempas	8,700,000	10,000,000		87.0
Cream roll ⁽¹⁾	1	Kempas	41,700,000	56,000,000		74.5
Muffin or cupcake	1	Kempas	14,800,000	20,000,000		74.0
Burger/ sausage bun	1	Seremban	4,100,000	5,000,000		82.0

Note:

⁽¹⁾ These production lines can be used interchangeably, eg. production line for bun can be used to produce filled bun and cream roll and vice versa.

Each production line is made up of various machinery and factory equipment. The material machinery and factory equipment are set out in the following section.

6. GENERAL INFORMATION ON OUR GROUP (Cont'd)

Our Group is dependent on various machinery and factory equipment to carry out our manufacturing activities. In line with our business needs and cost efficiency considerations, we have over the years invested in new and used machinery and factory equipment to increase our production capacity and production efficiency. Our procurement of machinery and factory equipment is managed by our Project Manager.

(b) Material machinery and factory equipment

The following table lists the material machinery and factory equipment that we currently own for our manufacturing activities. These machinery and factory equipment forms part of the various production lines set out in Section 6.6.3(a), and the production capacity for the machinery and factory equipment is shown under the various production lines as set out in Section 6.6.3(a).

No	Type of machinery and factory equipment	Description/ Use of machinery and equipment	Used in which production line	Location	Unit(s)	Year purchased	Total purchase value		NBV as at 31 March 2019	
							RM'000		RM'000	
(a)	Cyclothermic oven	Baking sandwich loaf	Sandwich loaf 550gm	Seremban	1	2016	1,625	1,458		
(b)	Direct drive tilt bowl mixer	Mixing of sandwich loaf dough	Sandwich loaf 550gm	Seremban	2	2016	1,402	1,258		
(c)	Dough machine set	Make-up line for sandwich loaf	Sandwich loaf 550gm	Seremban	1	2017	1,703	1,528		
(d)	Sandwich loaf conveyor	Conveyor cooling for sandwich loaf	Sandwich loaf 550gm	Seremban	1	2017	1,000	898		
(e)	Sandwich loaf production line	Fully automatic conveyor	Sandwich loaf 550gm	Seremban	1	2017	3,762	3,375		
(f)	Silo	Flour storage system	Sandwich loaf 550gm and burger/ sausage bun	Seremban	1	2017	1,280	1,026		
(g)	Burger bun conveyor	Conveyor cooling for burger bun	Burger/ sausage bun	Seremban	1	2017	842	767		
(h)	Cupcake production line	Fully automatic conveyor system for cupcakes	Muffin or cupcake	Kempas	1	2013	1,334	824		
(i)	Sandwich loaf conveyor	Conveyor cooling for sandwich loaf	Sandwich loaf 400gm	Kempas	1	2012	1,141	605		

6. GENERAL INFORMATION ON OUR GROUP (Cont'd)

No	Type of machinery and factory equipment	Description/ Use of machinery and equipment	Used in which production line	Location	Unit(s)	Year purchased	Total purchase value	NBV as at 31 March 2019
							RM'000	RM'000
(j)	Silo	Flour storage system, for production of sandwich loaf 400gm, bun	Sandwich loaf 400gm, bun, filled bun and cream roll	Kempas	1	2012	1,038	557
Total								12,296

The average economic useful life for our machinery and factory equipment is between 10 to 15 years. We conduct periodic inspections and maintenance of our machinery and factory equipment and undertake certain repair works when necessary. Our maintenance procedures include oiling, corrosion prevention and cleaning. The machinery and factory equipment that we own are commonly used in the food manufacturing industry and are generally imported from China, Japan and Europe.

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6. GENERAL INFORMATION ON OUR GROUP (Cont'd)**6.6.4 Regulatory requirements and environmental issues**

Save for the manufacturing licences, licence to manufacture scheduled goods (bread) and permits to store schedule controlled goods, there are no other regulatory requirements and/or major environmental issues which may materially affect our operations and utilisation of our assets as at LPD.

Details of our manufacturing licences, licence to manufacture scheduled goods (bread) and permits to store schedule controlled goods are set out in Appendix I.

6.6.5 Material capital expenditures and divestitures

Save as disclosed below, there were no other material capital expenditures (including interests in other corporations) made by us for the past 4 financial years up to LPD:

Description	At cost, unless otherwise stated				1 April 2019 up to LPD
	FYE 2016 RM'000	FYE 2017 RM'000	FYE 2018 RM'000	FYE 2019 RM'000	
PPE comprising:					
• Buildings					
- Johor	122	600	729	-	-
- Seremban	-	-	15	23	-
	122	600	744	23	-
• Motor vehicles ⁽¹⁾	4,297	6,054	5,927	2,575	1,654
• Office equipment, furniture and renovation ⁽²⁾					
- Johor	1,481	2,868	3,239	2,714	1,365
- Seremban	-	415	295	265	4
	1,481	3,283	3,534	2,979	1,369
• Plant, machinery and factory equipment ⁽³⁾					
- Johor	1,069	2,287	2,971	1,600	938
- Seremban	-	11,767	6,042	1,096	356
	1,069	14,054	9,013	2,696	1,294
• Construction in progress ⁽⁶⁾	-	-	-	1,158	839
	6,969	23,991	19,218	9,431	5,156
Acquisition of the entire equity interest of SDS B&C	⁽⁴⁾ 1,700	-	-	-	-
Acquisition of the entire equity interest of Daily Bakery	-	⁽⁵⁾ 25,830	-	-	-

Notes:

- ⁽¹⁾ Mainly relates to delivery vehicles used to deliver our products from our manufacturing plants to our depots and from our depots to our customers.

6. GENERAL INFORMATION ON OUR GROUP (Cont'd)

- (2) Mainly relates to computers, furniture for our office and F&B outlets and renovations of our manufacturing plants and F&B outlets.
- (3) Mainly relates to machinery and factory equipment purchased for our manufacturing plant and our F&B outlets such as ovens, mixer, chiller and packaging machine.
- (4) During FYE 2016, SDS Food acquired SDS B&C from our Promoters, namely Tan Kim Seng, Tan Kim Chai, Teou Chau Hoyk for a total cash consideration of RM1.7 million.
- (5) Based on the purchase consideration of RM31.6 million after setting-off an amount of RM5.8 million, being loan drawdown by Daily Bakery. Please refer to Section 6.4(a) for further details.
- (6) Refers to an extension made to the manufacturing plant in Kempas for the retail channel to be used as production space, in line with the increase in number of F&B outlets. Such extension was approved by Johor Bahru City Council on 30 January 2019.

The capital expenditures of the above PPE were mainly driven by our business expansion during the relevant financial years as well as for replacement purposes. The capital expenditures were financed by a combination of bank borrowings, hire purchase and internally generated funds.

The acquisition of Daily Bakery was undertaken to enable us to increase our production capacity to support expansion of our wholesale channel outside of Johor. The consideration for the acquisition of Daily Bakery was financed by a combination of bank borrowings and internally generated funds.

Save as disclosed below, there were no other material capital divestitures and write-offs (including interest in other corporations) made by our Group for the past 4 financial years up to LPD:

At NBV, unless otherwise stated ⁽¹⁾					
	FYE 2016	FYE 2017	FYE 2018	FYE 2019	1 April 2019 up to LPD
Description	RM'000	RM'000	RM'000	RM'000	RM'000
PPE comprising:					
• Freehold land	-	-	⁽²⁾ 3,490	-	-
• Buildings	-	-	⁽²⁾ 1,069	-	-
• Motor vehicles	572	99	38	79	75
• Office equipment, furniture and renovation	372	-	15	-	-
• Plant, machinery and factory equipment	129	82	193	16	271
	1,073	181	4,805	95	346
Disposal of the entire equity interest of SDS Tan Properties	⁽³⁾ 1,700	-	-	-	-

6. GENERAL INFORMATION ON OUR GROUP (Cont'd)**Notes:**

- (1) The capital divestitures and write-offs stated above are all from our manufacturing plant in Kempas and F&B outlets in Johor.
- (2) Relates to the disposal of Daily Bakery's factories in Johor Bahru which were no longer in use.
- (3) Based on the sales consideration of RM1.7 million.

The capital divestitures and write-offs of the above PPE were carried out in the ordinary course of business as part of the periodic review of our fixed asset register to identify and eliminate assets which are fully depreciated or no longer in use or are obsolete or have surpassed their useful lives.

During FYE 2016, SDS Food undertook an internal restructuring to streamline its business operation. As part of the internal restructuring, SDS Food:

- (a) disposed its entire equity interest of SDS Tan Properties (then known as SDS Bakery & Confectionery Sdn Bhd) for a total cash consideration of RM1.7 million as SDS Tan Properties' principal activity of property investment holding is not in line with our Group's core business; and
- (b) acquired the entire equity interest of SDS B&C from our Promoters, namely Tan Kim Seng, Tan Kim Chai, Teou Chau Hoyk for a total cash consideration of RM1.7 million.

6.6.6 Material plans to construct, expand or improve facilities

Save for the extension made to the manufacturing plant in Kempas, our Group has no immediate and material plans to construct, expand and improve our facilities as at LPD.

6.7 PUBLIC TAKE-OVERS

Since our incorporation up to LPD, there were:

- (a) no public take-over offers by third parties in respect of our Shares; and
- (b) no public take-over offers by our Company in respect of other companies' shares.

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7. BUSINESS OVERVIEW

7.1 OUR HISTORY

The history of our Group began with the formation of the partnership business named Masai Lee Hiang in 1984 by 2 brothers, Tan Kim Seng and Tan Kim Chai. In 1987, their late elder brother Tan Kim Lai, joined the partnership business and Masai Lee Hiang was renamed to Sin Lee Hiang Bakery. Sin Lee Hiang Bakery was involved in the manufacturing and retailing of bakery products with its first bakery being established in Masai, Johor.

During the early years, the Tan brothers focused on expanding the number of bakery outlets operated by Sin Lee Hiang Bakery. They had successfully opened 10 bakery outlets across Johor by 1991, all under the brand name of 'SDS'. On 25 June 1992, SDS Food was incorporated as a private limited company to take over the business and assets of Sin Lee Hiang Bakery.

In 1993, the Tan brothers purchased a piece of land measuring approximately 3.5 acres in Kempas, Johor to build a 2-storey factory cum office building (the ownership of the said property was transferred to SDS Food in 1999). This property is currently used as our headquarters and production facility for manufacturing of bakery, confectionery and other F&B products.

We established SDS Cafeteria Sdn Bhd (now known as SDS B&C) on 13 September 1995 to venture into the café business. In 1995, we opened our first F&B outlet (bakery-cum-café) under the name of 'SDS' in Taman Johor Jaya, Johor. With the commissioning of the new production facility mentioned above in 1996, we continued to expand our F&B business.

In 1999, our Group started to manufacture bakery products on an OEM basis for various hypermarkets and supermarkets in Singapore, which are distributed by our Singapore-based customers.

With the experience in the OEM business, in 2008, we diversified into the wholesale trade of bakery products targeting sales channels such as convenience stores, hypermarkets and mini markets. By 2009, we successfully acquired the entire equity stake in Wonderful Moderate Sdn Bhd (now known as SDS Top Baker). Wonderful Moderate Sdn Bhd was a manufacturer and wholesaler of 'Chicago' branded bakery products based in Senai, Johor. Its bakery products were sold in Johor and Melaka.

Following the acquisition, the brand 'Chicago' was rebranded as 'Top Baker'. The existing portfolio of bakery products was reviewed and new products were introduced to increase their appeal to consumers.

In 2010, we took over the distribution business of Bees Bakery Sdn Bhd through the acquisition of 35 delivery vehicles and recruitment of its sales and marketing personnel. With this, we were able to leverage on their local knowledge and existing customer network in the Klang Valley as we expand into the region. At the same time, we also established a depot/distribution centre to support our wholesale channels in Klang, Selangor. As at LPD, we have 19 depots across Peninsular Malaysia to facilitate the wholesale distribution of our bakery products to Johor, Pahang, Terengganu, Kelantan, Perak, Negeri Sembilan, Klang Valley and Melaka.

To increase our production capacity in the wholesale channel, we expanded our existing production facility in 2012 by building an adjoining 3-storey building with office, factory and warehouse. This expansion enabled us to consolidate our wholesale production plant from Senai (which was rented by us) to our existing location in Kempas, Johor. With this, our enlarged production facility further boosted our production capacity by approximately 50%.

7. BUSINESS OVERVIEW (*Cont'd*)

In 2013, we took over the distribution business of Sunshine Bakery Sdn Bhd in Klang Valley and Negeri Sembilan through the acquisition of 8 delivery vehicles and recruitment of its sales and marketing personnel. With this, we were able to leverage on their local knowledge and existing customer network in Klang Valley and Negeri Sembilan.

On 21 March 2014, the food safety management system of SDS Top Baker was assessed and certified to have conformed to the requirements of ISO 22000:2005 under the scope of manufacturing of bakery and confectionery products. The ISO 22000:2005 certification was subsequently renewed for another 3-year period beginning from 3 January 2017.

In 2016, our Group acquired Daily Bakery primarily for its wholesale distribution team and new manufacturing plant in Seremban which was in the midst of construction. The acquisition was to enable us to increase our production capacity to support expansion of our wholesale channel outside of Johor. Established on 12 December 1989, Daily Bakery is principally involved in the manufacturing, sales and distribution of bakery products under the brand 'Daily's'. In August 2017, we completed the construction and commissioning of the new manufacturing plant in Seremban. In November 2017, we commenced operations in our Seremban manufacturing plant where we mainly produce sandwich loaf (550gm) and burger/sausage buns. The manufacturing plant in Kempas on the other hand produces all other bakery products such as sandwich loaf (400gm), filled buns, cream rolls, muffins or cupcakes etc.

In 2018, Daily Bakery obtained the certification of 'Makanan Selamat Tanggungjawab Industri' ("MeSTI") which is a food safety programme undertaken by the Ministry of Health Malaysia. This certification is valid for 3 years from 19 July 2018 to 18 July 2021 for our manufacturing plant in Seremban. Further details on MeSTI are set out in Section 7.14.

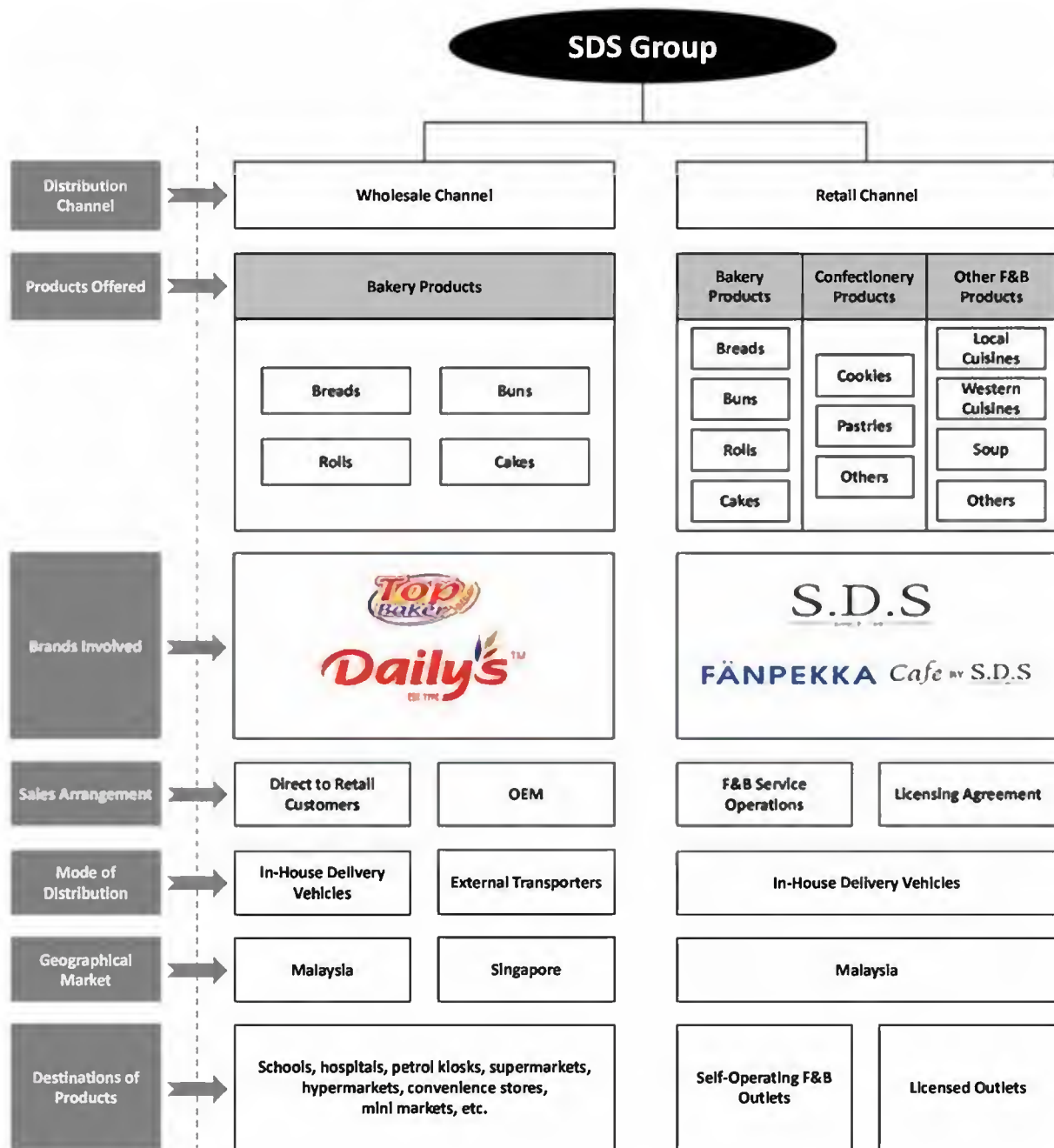
In 2019, SDS Food obtained the MeSTI certification with a validity period of 3 years from 10 May 2019 to 9 May 2022 for our manufacturing plant in Kempas. Further details on MeSTI are set out in Section 7.14.

From a traditional operator of a single bakery, we have over the years emerged as a large-scale bakery products manufacturer that distributes to:

- (a) wholesale market (over 10,000 customers such as schools, hospitals, petrol kiosks, supermarkets, hypermarkets, convenience stores, mini markets). As at LPD, our bakery products are now distributed in Johor, Pahang, Terengganu, Kelantan, Perak, Negeri Sembilan, Klang Valley and Melaka as well as Singapore; and
- (b) retail market via our own 33 F&B outlets in Johor. As at LPD, we operate 18 bakery outlets (of which 14 are operated by us (6 outlets operated at different Aeon hypermarkets), and 4 outlets operating under licensing arrangement), 5 cafés and 10 bakery-cum-café outlets (of which 1 outlet is operating under licensing arrangement).

7.2 DESCRIPTION OF OUR BUSINESS

Our Group is principally involved in the manufacturing and distributing of bakery products as well as operating F&B outlets. Our products are sold via both wholesale and retail channels.

7. BUSINESS OVERVIEW (Cont'd)

We are a manufacturer of a wide range of bakery products such as breads, buns, rolls and cakes. In addition, we also produce other food products which cater to our F&B outlets. As at LPD, we have obtained Certificate of Authentication Halal for 681 bakery products representing 96.2% of our total 708 bakery products. Although we continuously roll out new and seasonal products, we only make applications for the Certificate of Authentication Halal for the new products once every 6 months. Our bakery products that have not obtained the Certificate of Authentication Halal includes those newly rolled out to the market, those that will be included in the next batch of application for approval or those that are pending approval. The Halal logo will not be printed on the packaging of those products that have yet to obtain the Certificate of Authentication Halal.

7. BUSINESS OVERVIEW (Cont'd)

7.2.1 Wholesale channel

Bakery products manufactured by our Group for wholesale channel are catered for the mass market across the Peninsular Malaysia as well as Singapore. The products are marketed under our trademarked brands of 'Top Baker' and 'Daily's'.



As at LPD, bakery products sold under wholesale channel include 47 'Top Baker' and 44 'Daily's' varieties of breads, buns, rolls and cakes such as sandwich loaf, assorted buns, cream rolls and cakes. In addition, we also manufacture 42 bakery products on an OEM basis.

Bakery products under the 'Daily's' brand are typically sold at wholesale channels such as hypermarkets, supermarkets and convenience stores that requires a listing fee. Listing fees are charged for displaying and promotion of products at their premises.

Bakery products under the 'Top Baker' brand are typically sold at wholesale channels such as smaller grocery/sundry shops and factories/ schools/ coffee shops for which there is no listing fee.

Moving forward, our product differentiation strategy is for 'Daily's' brand to carry premium products such as sandwich loaf made from premium ingredients like multigrain or wholemeal flour, cream rolls with cheese, buns with different flavours of sausages, pocket sandwiches, dorayaki etc. On the contrary, the 'Top Baker' brand will carry basic and traditional range of products such as white sandwich loaf, basic cream rolls with vanilla or chocolate filling, kaya buns etc.

We will continue to produce existing products for both brands. However, moving forward for new product launches, we will focus more on premium products for "Daily's" brand. Although the cost of raw materials may be higher for premium products, the corresponding selling price will be higher as well. Furthermore, sales generated from these premium products is not expected to be substantial enough to materially impact the Group's financial position.

Examples of some of our bakery products sold under wholesale channel are as follows:

Type of products sold	Examples
Breads	Sandwich loaf 400gm, sandwich loaf 550gm, french loaf
Buns	Filled buns, non-filled buns such as burger/sausage buns
Cakes	Cream cakes, loaf cakes, muffins, cupcakes, fruit cakes, cheese cakes
Rolls	Cream rolls

7. BUSINESS OVERVIEW (*Cont'd*)



We supply bakery products (under our own brands) and also act as an OEM for some of our customers in Singapore. Based on the OEM business arrangement, we manufacture bakery products and package them under different brand name(s) for our Singapore-based customers. As at LPD, we manufacture 5 different brands for our Singapore-based customers on an OEM basis.

Our bakery products are sold either directly to our Singapore-based customers or through distributors in Singapore, both via Super Arrow. We deliver our bakery products to our customers or distributors in Singapore using our delivery vehicles. Our customers or distributors will then distribute the bakery products to various hypermarkets and supermarkets in Singapore. As at LPD, our Group has 2 distributors in Singapore comprising A.M. Deli Enterprise Pte Ltd, since 2016 and JC Food Supplies Pte Ltd, since January 2019. We supply to JC Food Supplies Pte Ltd both our own brands and OEM brands of bakery products, while we only supply our own brands of bakery products to A.M. Deli Enterprise Pte Ltd.

Our Group leverages on our depots and our own fleet of delivery vehicles to deliver directly to our customers in Malaysia and Singapore. Further details on our Group's distribution arrangement are set out in Section 7.3.1(c).

Bakery products for wholesale channel are generally sold on a 'sale-or-return' basis. Under this arrangement, our customers retain the rights to return any unsold (expired or defective) bakery products to us. On average, our van salesmen will collect any unsold bakery products which includes expired or defective products, 4 days from the date of initial delivery. For FYE 2016 to 2019, the value of unsold bakery products returned back to us ranged from 11.9% to 14.7% of our total annual revenue for the wholesale channel (net of inter-segment adjustments). The unsold bakery products will then be disposed to third parties who will further process it into animal feed. The disposal price is determined by weight and varies depending on negotiation with the buyers. For FYE 2016 to 2019, revenue from disposal of unsold bakery products (which was captured under revenue from wholesale channel) was less than 1.0% of our total annual revenue.

7.2.2 Retail channel

Bakery and other food products manufactured by our Group for retail channel are sold via our F&B outlets. We operate F&B outlets under 3 different concepts namely bakery, café and bakery-cum-café. As at LPD, all our F&B outlets are located in Johor.

7. BUSINESS OVERVIEW (Cont'd)

Our F&B outlets are strategically located at main streets, shopping malls and transport terminals that have high pedestrian traffic and/or are within the catchment area of surrounding neighbourhoods.

- **Bakery**



Products in our bakery outlets are mostly sold under the 'grab-and-go' manner. There are few bakery outlets that provide seating for customers to immediately enjoy their purchases.

As at LPD, our Group holds a concession from AEON Co. (M) Berhad to occupy designated area within the premises of 6 AEON outlets in Johor namely the Taman Universiti, Permas Jaya, Tebrau City, Bukit Indah, Kulaijaya and Bandar Dato' Onn outlets for the purpose of exhibiting, storing and selling our bakery and confectionery products. This concession is subject to yearly renewal. The concession at the 6 AEON outlets has been renewed with effect from 1 January 2019 and will expire on 31 December 2019. For the 6 AEON outlets, we have to pay on a yearly basis, a minimum concession fee of RM565,383 or 30.0% of the gross yearly sales generated by the outlets. Other than this, there is no other requirement in terms of minimum sales from the concession agreement.

Besides being the direct operators of our bakery, we also act as a licensor of our bakery to interested parties. Interested parties can enter into a licensing agreement with our Group to open our bakery and enjoy operational, training and marketing support from us. Our Group stands to earn a licensing fee as well as recurring monthly income namely consultant fees and outlet fees from this business arrangement. The licensing agreement is valid for a period of 5 years with an option to renew for another 5 years, subject to terms and conditions as may be imposed by us. As at LPD, there are 4 licensed 'SDS' bakery and 1 licensed 'SDS' bakery-cum-café. The licensed 'SDS' bakery are located in Kota Raya, Kangkar Pulai, Setia Indah and Kota Masai in Johor Bahru whereas the licensed 'SDS' bakery-cum-café outlet is located in Taman Pelangi.

The revenue contributions to our Group (via SDS Enterprise) from the licensing arrangements for the financial years under review are as follows:

	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
SDS Enterprise	37	153	164	170

7. BUSINESS OVERVIEW (Cont'd)

The revenue from our licensing arrangements was less than 1.0% of our Group's retail channel revenue for each of the financial year under review.

- **Café**



Our food products are ready-to-cook meals prepared at our central kitchen in Kempas, Johor under the 'hub-and-spoke' model. Each café is also equipped with in-store kitchen equipment to cook the meals upon customers' order.

- **Bakery-cum-café**



We also operate F&B outlets which are a combination of bakery and café.

As at LPD, our Group operates 18 bakery (including 4 outlets operating under licensing arrangement and 6 outlets operated at different AEON hypermarkets), 5 cafés and 10 bakery-cum-café (of which 1 outlet is operating under licensing arrangement). All our products under this channel are sold under our brand name of 'SDS'. One of our bakery-cum-café is operated under a joint collaboration with FANPEKKA Theme Park by AEON under the name of 'FANPEKKA Cafe BY SDS'. FANPEKKA Theme Park by AEON has allowed us to operate our café in the theme park under the name of 'FANPEKKA Cafe BY SDS'. We have to pay FANPEKKA on a monthly basis, the higher of a fixed rental of RM28,988 or 12.0% of the gross monthly sales generated by 'FANPEKKA Cafe BY SDS'. We are also required to pay an additional 3.0% of the gross annual sales of 'FANPEKKA Cafe by SDS' as yearly commission. Other than this, there is no other requirement in terms of minimum sales from the joint collaboration.

7. BUSINESS OVERVIEW (Cont'd)

The annual revenue contributions from the 6 outlets operated at different AEON hypermarkets and the 'FANPEKKA' bakery-cum-café were less than 4.0% of our total annual revenue for FYE 2016 to 2019.



Our retail channel allows us to showcase our new and seasonal bakery products as well as other F&B products. As at LPD, we offer 413 bakery products and 162 festive bakery products at our 33 F&B outlets. There are at least 180 different bakery and other F&B products being offered on a daily basis. F&B products offered at our café and bakery-cum-café include a variety of breakfast, casual lunch, afternoon tea and casual dinner food options encompassing local and western cuisines, beverages and desserts.

Examples of bakery and F&B products sold under retail channel are as follows:

Type of products sold	Examples
Breads	Sandwich loaf 400gm, sandwich loaf 550gm, french loaf
Buns	Filled buns, non-filled buns, savoury buns
Cakes	Cream cakes, muffins, cupcakes, fruit cakes, cheese cakes
Confectionery	Cookies, mooncakes, pastries
Local cuisine	Mee mamak, braised yee mee, yee mee with barbeque chicken, fried kuey teow, kampong fried rice, nasi lemak
Asian cuisine	Thai tom yam, seafood udon soup, oriental udon, black pepper chicken chop udon, Singapore fried mee hoon, Hong Kong style yee mee, Hong Kong style fish noodle
Western cuisine	Seafood platter, spicy grilled chicken chop, satay grilled chicken chop, original spring chicken, various pasta
Fusion cuisine	Tilapia fish rice bowl, smoked duck rice bowl, teriyaki chicken rice bowl, salmon rice bowl, oriental fried rice with smoked duck
Jam	Coconut jam, pandan coconut jam
Gelato	Various flavours of gelato
Beverage	Hot/ iced/ blended coffee, hot /iced tea, mocktail, milkshake, fresh fruit juice

7. BUSINESS OVERVIEW (Cont'd)

In addition, there are bakery products that are offered in conjunction with the prevailing festivals and specific occasions at various points in time of the year. We offer various types of festive products in conjunction with local festivities such as Chinese New Year, Mid-Autumn Festival, Hari Raya, Deepavali and Christmas. Besides that, we offer delicacies for 'baby full moon' celebration as well as customised wedding cakes.

Examples of festive products sold are as follows:



7. BUSINESS OVERVIEW (Cont'd)

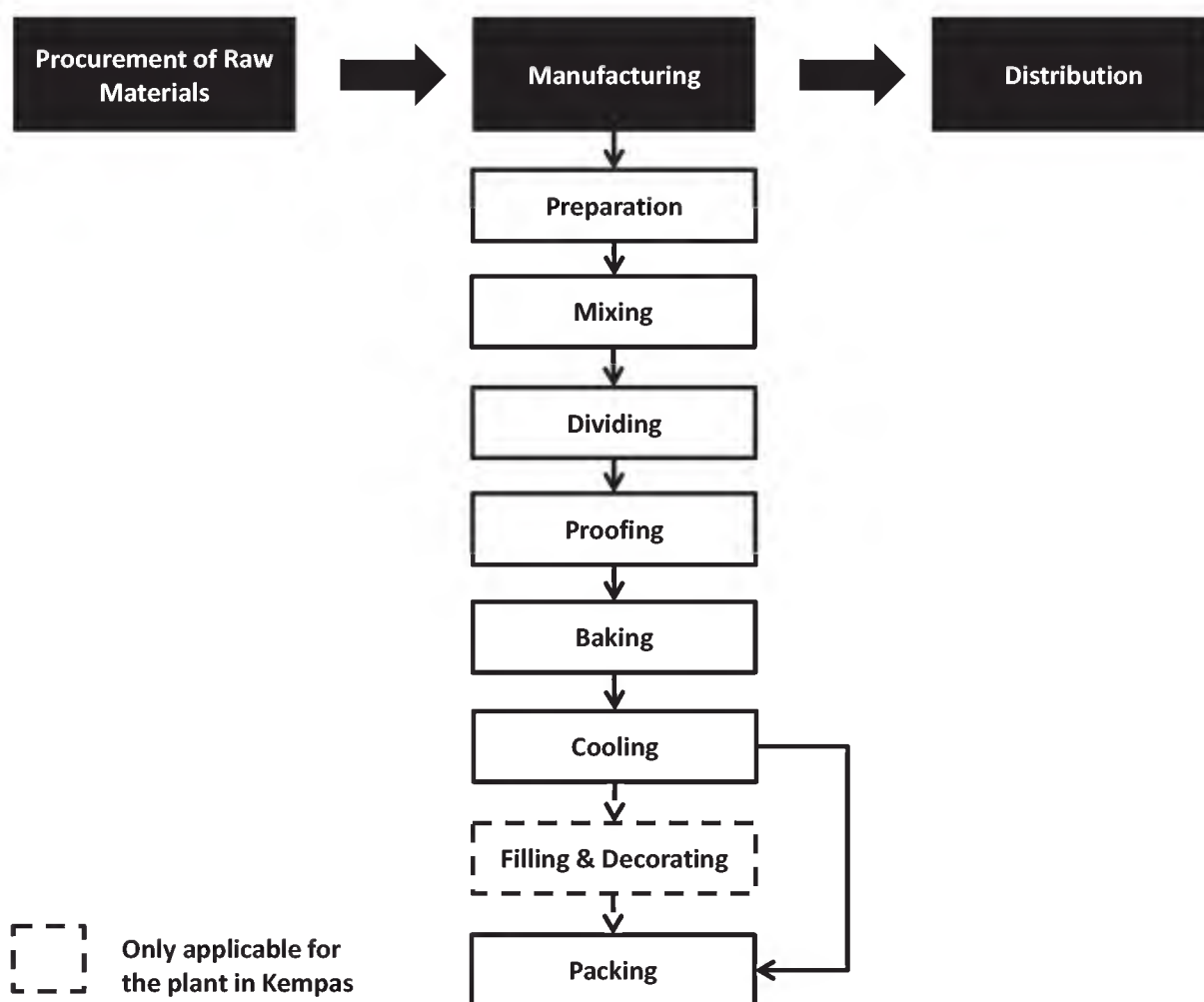
Bakery, confectionery and other F&B products sold under this channel are distributed based on a 'hub-and-spoke' model. These products are produced at our central kitchen located in our production facility in Kempas, Johor, and are delivered to each of the F&B outlets on a daily basis. Please refer to Section 7.3.2 for further details of our 'hub-and-spoke' model.

7.3 BUSINESS PROCESSES

7.3.1 Manufacturing process

We undertake the production of bakery products on a large scale basis. The general flow chart and elaboration on the processes involved in the production of bakery products are as follows:

(I) PRODUCTION FLOW CHART OF OUR BAKERY PRODUCTS



PROCESSES INVOLVED

There are generally 3 main stages involved, namely procurement of raw materials, manufacturing process and distribution of products. The processes are the same at both manufacturing plants in Seremban and Kempas save for the filling and decoration process which is only applicable for the manufacturing plant in Kempas.

7. BUSINESS OVERVIEW (Cont'd)

(a) Procurement of raw materials

The required raw materials are identified and procured from various suppliers. There are some ingredients that are imported. All ingredients supplied to us must comply with our food safety standards and Halal-requirements. All incoming raw materials are inspected visually or put through quality checks.

These raw materials are subsequently stored in different storage rooms or containers. Certain ingredients are refrigerated or stored in storage containers under controlled environment to keep them fresh and/or safe for use.

(b) Manufacturing

Quality checks are randomly conducted throughout the manufacturing processes. Any samples that do not meet our internal quality requirements will be removed from production and discarded.

Preparation

The first step in the manufacturing process of bakery products involves the preparation of ingredients. Flour, which is the main ingredient used to make bakery products, is generally sieved for several reasons including to aerate the flour, to remove coarse particles and other impurities as well as to make the flour more homogeneous. After that, the flour and other different ingredients are weighed as per the formulation of the intended bakery products.

We have a dedicated scaling division which is in charge of the preparation of food ingredients before they are despatched to the mixing department. Such protocol ensures separation of functions to safeguard the formulation of our bakery products. Our quality control personnel will conduct random checks on the weight of the ingredients to ensure that it is prepared correctly.

Mixing

The mixing of flour with other ingredients using a mixer involves kneading of dough for bread and buns products or mixing of batter for cake products.

At the mixing stage of dough, liquid ingredients are added to the flour and dry ingredients with the resulting dough becoming wet and sticky. The continuous kneading of ingredients will cause gluten to gradually develop in the dough. As the dough develops, it becomes more elastic. The dough may be subject to fermentation for a period of time. The temperature of the dough will be measured and traced using a thermometer to ensure consistency in quality.

At the mixing stage of batter, liquid ingredients are added to the flour and dry ingredients. The batter is then mixed together until all the ingredients are well combined.

7. BUSINESS OVERVIEW (Cont'd)

Dividing

For production of breads and buns, the dough is divided into individual pieces of predetermined weight and size by the dough divider machine. Our quality control personnel will conduct random checks on the weight of the divided dough using portable weighing scale machines. For our automated sandwich loaf production line, the divided dough is placed and measured on an automatic conveyor with weight checking capability. After the dough is freshly cut, it is often irregular in shape with sticky surface. The dough is then rounded to give a new surface skin that will retain gas from fermentation and to reduce the stickiness of the dough. The rounded dough is often subject to an intermediate proofing process whereby fermentation of the dough continues. After that, the dough is moulded into suitable shapes and placed in the baking pan.

For production of cake products, the batter is poured into the desired moulds.

Proofing (applicable only for production of breads and buns)

The proofing (also known as proving) process refers to the dough resting period after it has been placed in the baking pan. During this resting period, the fermentation of the dough continues. The proofing process is usually conducted in a controlled warm and humid environment in a proofing room. During this process, the dough increases significantly in volume. The resulting dough from this process will be randomly measured using measuring rulers by our quality control personnel.

Baking

After the proofing stage (if applicable), the dough/batter is transferred to the oven with the use of a trolley or conveyor belt. The dough/batter will be baked in an oven. The baking temperature varies depending on the oven and type of bakery products to be produced. Besides that, the duration of the baking process may also differ depending on the type and size of the bakery products. A random check on the core temperature of the baked products will be performed using a thermometer by our quality control personnel.

Cooling

After the baking stage, the baked products are left at the cooling tower to cool before they are sent for packaging to prevent formation of moisture from condensation in the wrapper. Once again, the temperature of the baked products will be randomly taken by our quality control personnel using a thermometer. A trolley is used to transport the cooled baked products. Some bakery products may also be subjected to slicing (with the use of a slicer) before being sent for packaging.

Filling and Decorating

After the cooling stage, some of our bakery products are transferred using a trolley to another work bench and manually filled with fillings such as cream, custard, chocolate and jam and/or decorated with toppings. The weight of the filled bakery products will also be randomly taken using portable weighing scale machines by our quality control personnel.

7. BUSINESS OVERVIEW (Cont'd)

Packing

The packing process is the final step in the manufacturing process. Once the bakery products have sufficiently cooled or filled and decorated, they are packed in the desired packaging format using the packing machine for sale to our customers and our F&B outlets. The packed bakery products will be randomly inspected to ensure that they are properly clipped with the locking clip or properly sealed. In addition, our quality control personnel will randomly select finished products and conduct test on its moisture content, acidity level and water activity (measure of water relevant to growth of organisms, chemical processes and enzyme activity) at our plant. If any contamination is detected, the whole batch of the product will be disposed.

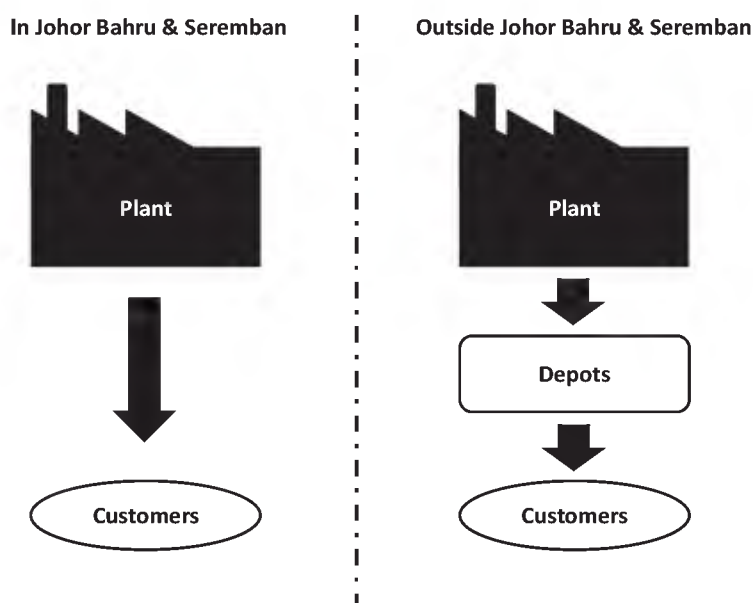
We will also send certain of our products to undergo various tests such as food content breakdown and shelf life tests by third party laboratory every twice a year to ensure the quality of our products.

(c) Distribution

The distribution stage involves transporting and distributing the finished products.

For wholesale channel, the finished products are delivered directly to our customers particularly in Johor Bahru and Seremban or to our depots across the Peninsular Malaysia. Our van salesmen will then onward deliver the products to our customers.

As at LPD, we have not encountered any major pilferages (in terms of cash of products) which have materially affected our business operations. We track such potential pilferages through a handheld point of sales device that is allocated to each van salesman. The device is used for issuance of invoice and recording of product movement and cash collection. Our van salesman will generate a daily sales report from their handheld device which will be reconciled to the cash collected. At the end of each month, a stock count will be conducted on each van salesman to ensure that the number of products held by them ties to the recording on the device.



7. BUSINESS OVERVIEW (Cont'd)

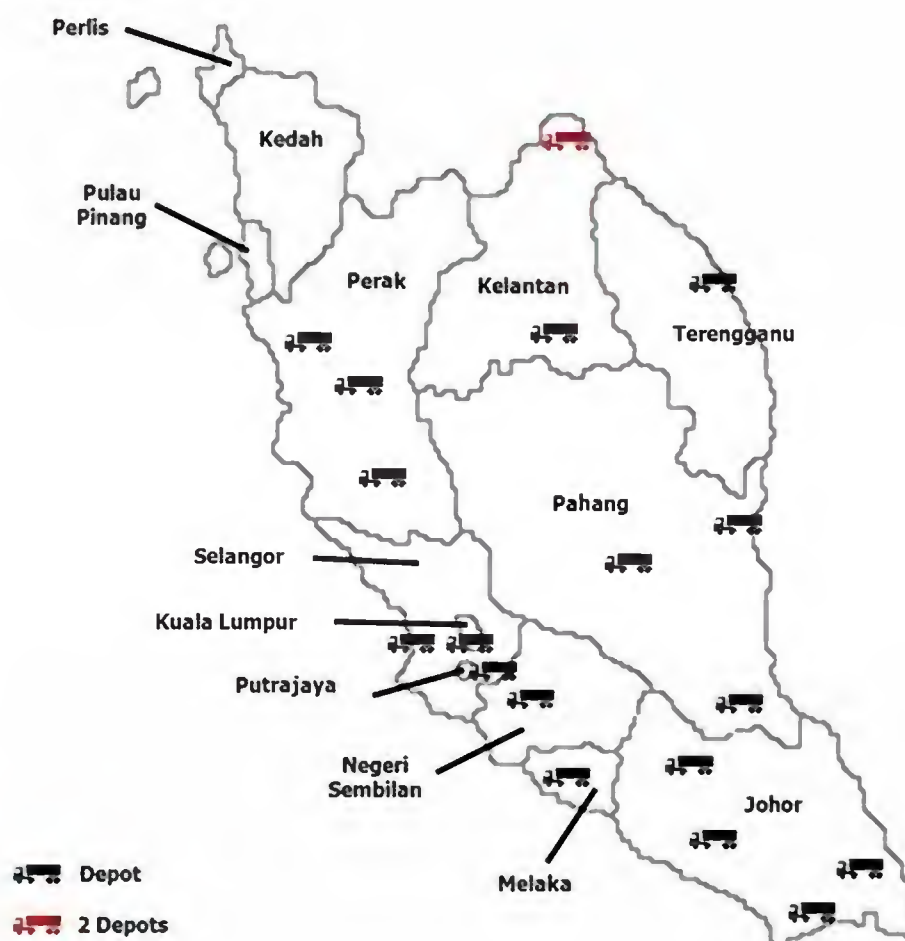
As at LPD, we have 19 depots, 250 1-tonne delivery vehicles and 280 van salesmen, which are located across the following regions:

Region	No. of depots	No. of 1-tonne delivery vehicles	No. of van salesmen
Northern ⁽¹⁾	3	22	27
Central ⁽²⁾	4	70	83
East Coast ⁽³⁾	7	69	78
Southern ⁽⁴⁾	5	89	92
Total	19	250	280

Notes:

- (1) Comprises Bidor, Taiping and Ipoh.
- (2) Comprises Seremban, Taming Jaya, Balakong and Klang.
- (3) Comprises Rompin, Kuantan, Temerloh, Kota Bahru (2 depots), Gua Musang and Kuala Terengganu.
- (4) Comprises Johor Bahru, Kota Tinggi, Ayer Hitam, Labis and Melaka.

The location of our depot across the 4 regions is further illustrated as follows:



7. BUSINESS OVERVIEW (Cont'd)

For retail channel, the finished products are delivered directly to our F&B outlets. As at LPD, we have 20 1-tonne delivery vehicles. Some of the 1-tonne delivery vehicles for the retail channel are equipped with refrigerator to deliver products in a controlled temperature.

All our delivery vehicles are custom painted with either the Top Baker or Daily's mural (for wholesale channel) and 'SDS' mural (for retail channel).

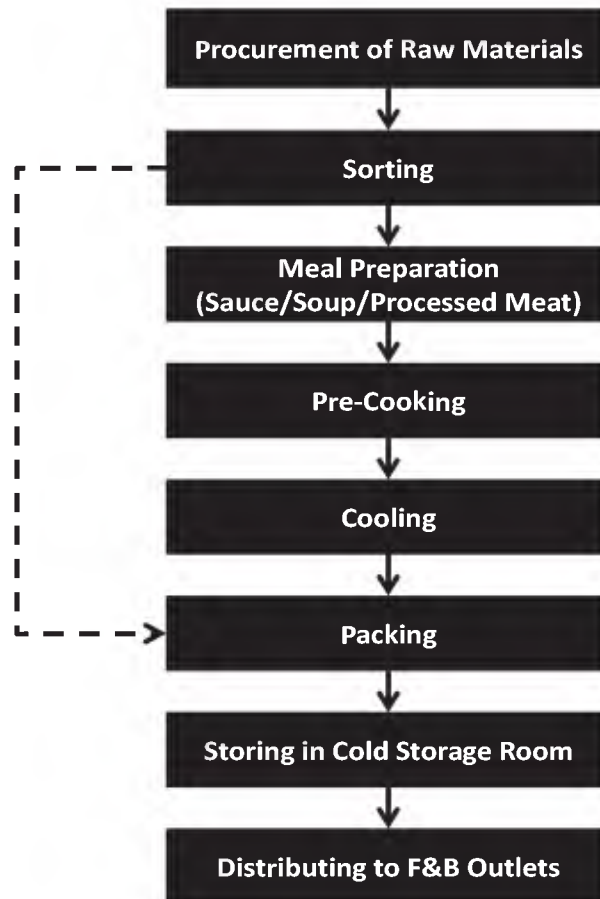


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7. BUSINESS OVERVIEW (Cont'd)

(II) PRODUCTION FLOW CHART OF OUR READY-TO-COOK MEALS

Our manufacturing plant in Kempas is also involved in the production of ready-to-cook meals that will be distributed to all our F&B outlets as part of our hub-and-spoke model. The production flow chart involved is as follows:



(a) Procurement of raw materials

The required raw materials are identified and procured from various suppliers. These raw materials include but are not limited to frozen meat (such as seafood, poultry, beef and lamb), fresh vegetable, fresh fruit, frozen french fries, frozen potato wedges, frozen mixed vegetable, pasta, noodle, etc. All ingredients supplied to us must comply with our food safety standards and Halal-requirements. All incoming raw materials are inspected visually or put through quality checks.

(b) Sorting

The raw materials will be sorted according to their intended destinations or uses. A portion of the raw materials such as fresh vegetable, fresh fruit, frozen french fries, frozen potato wedges, frozen mixed vegetable are immediately placed on a trolley and sent to the packing machine for packing purpose. Other remaining raw materials are also put into a trolley and transferred to the preparation room.

7. BUSINESS OVERVIEW (Cont'd)

(c) Meal preparation (sauce/soup/processed meat)

There are 3 main categories of meal to be prepared namely sauce, soup and processed meat.

The processes involved in the preparation of sauce generally involve the adding, mixing or stirring of ingredients.

The processes involved in the preparation of processed meat are typically longer and more tedious involving activities such as thawing (to enable the softening of frozen meat), removing (internal organs, skin and bones), cutting (to certain sizes or forms such as fillets) as well as marinating (soaking in certain liquid mixture containing certain spices, herbs and/or oil).

The entire preparation will be closely supervised by quality control personnel with samples being taken for checks on various parameters such as size and weight.

(d) Pre-cooking

The prepared meals are subsequently placed on designated metal racks and placed into a combination oven (with 3 functions namely convection, steam and combination cooking) to be cooked at various different temperature ranging from 80 degree Celsius to 120 degree Celsius depending on the type of meal involved. A random check on the core temperature of the cooked products will be performed using a thermometer by our quality control personnel.

(e) Cooling

After the pre-cooking stage, the resulting ready-to-cook meals are then cooled with the use of a blast freezer before they are sent for packaging to prevent formation of moisture from condensation in the wrapper. The temperature of the ready-to-cook meals will be randomly taken by our quality control personnel using a thermometer. A trolley is used to transport the ready-to-cook meals.

(f) Packing

The earlier sorted raw materials or ready-to-cook meals are packed in the desired packaging format using the packing machine. The packed ready-to-cook meals will be randomly inspected to ensure that they are properly clipped with the locking clip or properly sealed.

(g) Storing in cold storage room

The packed ready-to-cook meals are stored in a cold storage room at a temperature of -20 degree Celsius. The packed ready-to-cook meals will only be taken out upon receiving orders from each of our individual F&B outlet. Nevertheless, the duration of storage for these packed ready-to-cook meals will be only between 1 to 2 months and must be distributed during this period.

(h) Distributing to F&B outlets

The packed ready-to-cook meals will be randomly inspected again to ensure that they are properly clipped with the locking clip or properly sealed. After that, the packed ready-to-cook meals are delivered to our F&B outlets using our internal delivery vehicles.

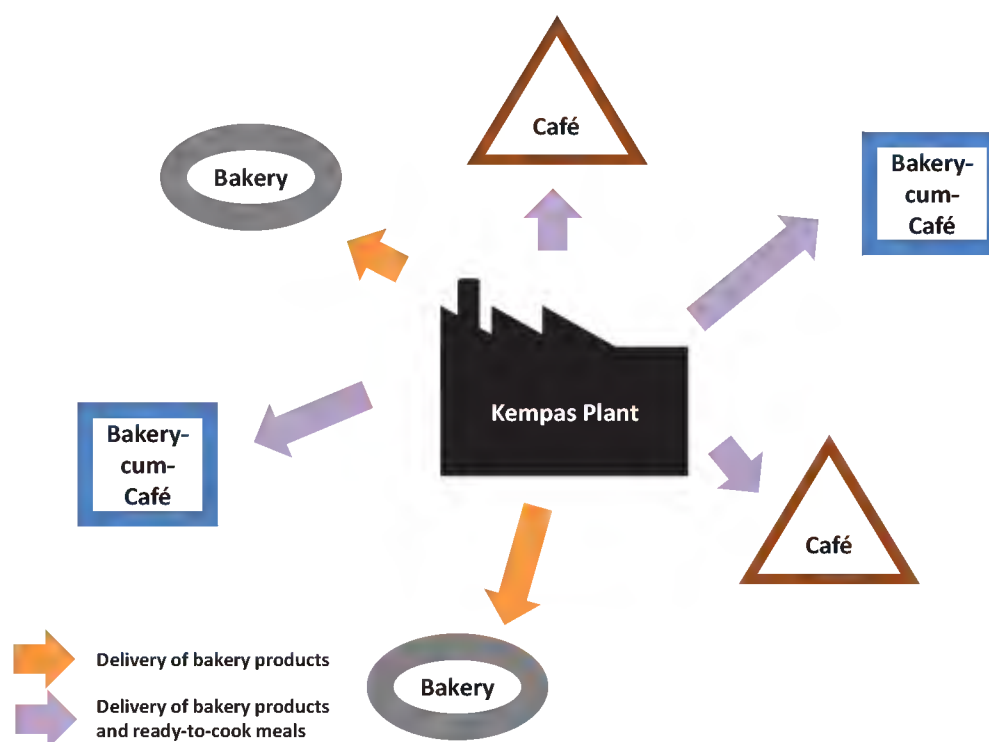
7. BUSINESS OVERVIEW (Cont'd)

The delivery vehicles used to deliver the packed ready-to-cook meals is the same as that used to deliver bakery products to our F&B outlets.

7.3.2 Hub-and-spoke model

For retail channel, we employ a hub-and-spoke model for the production and delivery of selected bakery products and ready-to-cook meals to our F&B outlets. This model involved the centralisation of the production of selected bakery products and ready-to-cook meals at our manufacturing plant in Kempas (i.e. the hub) for subsequent delivery to our F&B outlets (i.e. the spokes). Any expired or unsold products and ready-to-cook meals at our F&B outlets will be thrown away. For FYE 2019, the costs of unsold products and ready-to-cook meals thrown away were approximately 1.8% of our total annual revenue for retail channel (net of inter-segment adjustments).

The hub-and-spoke model for our retail channel is further illustrated as follows:



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7. BUSINESS OVERVIEW *(Cont'd)*

7.4 KEY ACHIEVEMENTS AND MILESTONES

Our key achievements and milestones are as follows:

<u>Year</u>	<u>Achievements or Milestones</u>
1992	Established SDS Food to take over the business and assets of Sin Lee Hiang Bakery
1993	Construction of our headquarters and manufacturing plant in Kempas
1995	Opened our first bakery-cum-café under the name of 'SDS' in Taman Johor Jaya
2008	Diversified into the wholesale trade of bakery products
2009	Acquired SDS Top Baker
2014	SDS Top Baker obtained the ISO 22000:2005 certification
2016	Acquired Daily Bakery
2017	Started operations from the manufacturing plant in Seremban
2018	Daily Bakery obtained the certification of MeSTI

7.5 PRINCIPAL MARKETS

Our principal markets are Malaysia and Singapore. For FYE 2016 to 2019, we generated between 83.8% and 91.4% of our revenue in Malaysia with the remaining revenue mainly derived from Singapore.

Please refer to Section 11.2.2(a) for further breakdown of our revenue contribution by geographical locations for the financial years under review.

As at LPD, we distribute our products to various locations in Peninsular Malaysia such as Johor, Pahang, Terengganu, Kelantan, Perak, Negeri Sembilan, Klang Valley and Melaka as well as Singapore. The present concentration in these locations is primarily due to their proximity to our manufacturing plants in Kempas and Seremban. The proximity of our manufacturing plants to our customers is an important business consideration given the following:

- (a) limited shelf life of our bakery products; and
- (b) high frequency of transportation activities particularly in view of the required reverse logistics to support the 'sale-or-return' basis for all our bakery products distributed under the wholesale channel.

We strive to ensure the freshness of all our bakery products while at the same time minimise our logistical related costs.

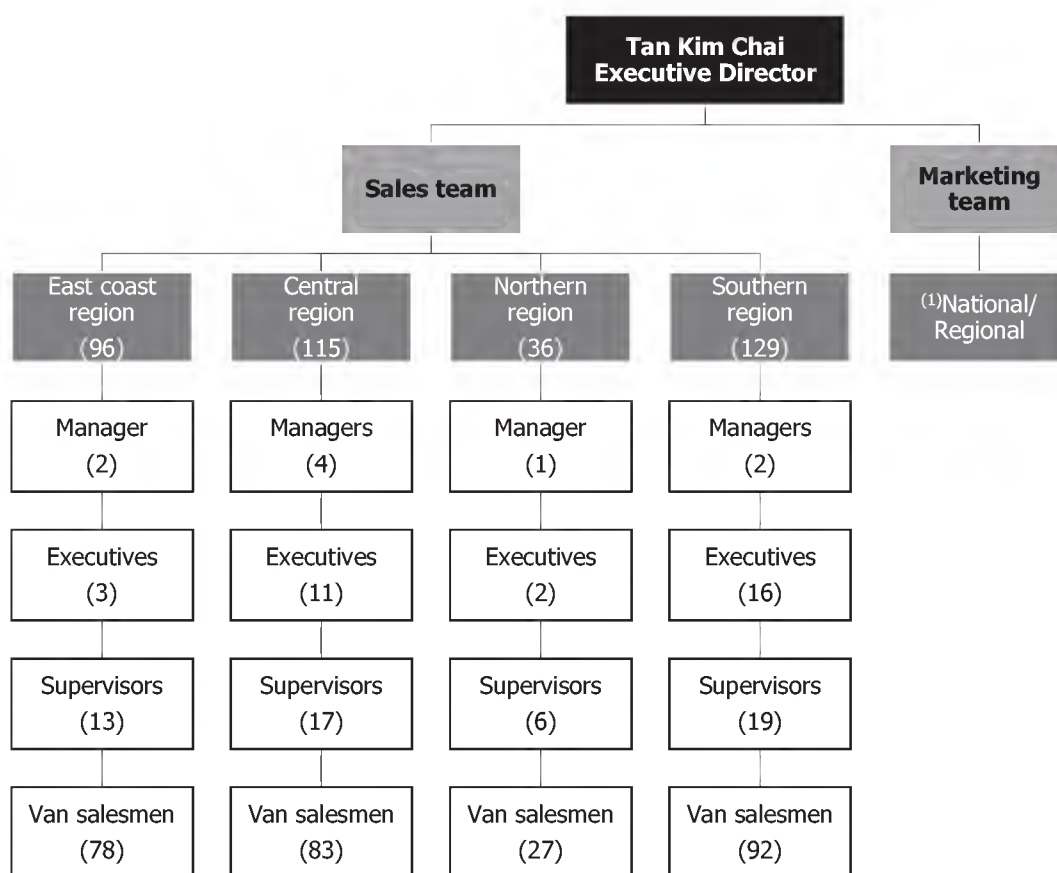
7. BUSINESS OVERVIEW (Cont'd)

7.6 SALES AND MARKETING

7.6.1 Wholesale channel

As at LPD, the sales and marketing division of our wholesale channel comprises 376 personnel and is spearheaded by our Executive Director, Tan Kim Chai. The sales and marketing division are divided into 4 regional sales teams namely east coast, central, northern and southern, and 1 marketing team that handles the marketing function for national/regional retail chain. Each regional sales team consists of managers, senior executives, executives, supervisors and van salesmen (driver cum salesman).

The organisation structure of the sales and marketing division of our wholesale channel is depicted below:



Note:

- (1) Comprises 2 employees which are parked under the sales team. They are based in our Johor office and are also managers in the Southern region sales team.

We actively negotiate for the availability of more strategic shelf or retail space at our customers' outlets to display our products and the placement of in-store promotional materials. In promoting the wholesale channel of our bakery products, we decentralise the customer relationship management jobs with dedicated sales personnel being assigned to build relationship with existing customers or solicit new customers in a specific designated area or region. The assigned sales personnel will be directly involved in promoting our products and gather valuable feedbacks from customers.

7. BUSINESS OVERVIEW (Cont'd)

Our distribution network for the wholesale channel is supported by our in-house team of logistics personnel and various depots located across the Peninsular Malaysia. Without the presence of third-party logistics, the services offered by our sales personnel are more personalised. As at LPD, the Group has 2 distributors in Singapore (including A.M. Deli Enterprise Pte Ltd since 2016 and JC Food Supplies Pte Ltd since January 2019).

We have also been actively providing updates and promoting our products and services online via our dedicated corporate website, www.topbaker.com.my and social media such as Facebook. From time to time, we also sponsor various charity events.

For FYE 2016 to 2019, our advertising and promotion expenditures for the wholesale channel accounted for 0.1% to 0.3% of our annual wholesale channel revenue.



7.6.2 Retail channel

As at LPD, the marketing division of our retail channel comprises 8 personnel which includes the business development team and design team, and is spearheaded by our Executive Director, Tan Kee Jin. He is tasked with developing marketing strategies and spearheading our marketing drive to increase the sales of our products, build our brands, expand our customer base and survey for potential F&B outlets. The marketing division of our retail channel is based at our Group's headquarters in Kempas. For FYE 2016 to 2019, our advertising and promotion expenditures for the retail channel accounted for 0.5% to 1.1% of our annual retail channel revenue.

We utilise various marketing channels to reach out to targeted consumers when promoting our products and driving our brand building efforts. Our Group has been conducting promotional activities through the use of traditional print media and social media such as Facebook, Instagram and our corporate website. From time to time, we place advertisements in print-based magazines and newspapers such as Sin Chew Daily, China Press, The Star, Sister magazine and Good Times magazine. We also participate in media interviews to raise our visibility.

We have also been actively providing updates and promoting our products online via our corporate website, www.sdsgrps.com and social media. We also invite third-party bloggers to review our F&B outlets and local celebrities to attend our promotional events. This allows us to target a large pool of netizens and promote our direct and active engagement with them. We also act as sponsor for charity events. This can help to fulfil our corporate social responsibility and raise the profile of our Group.

7. BUSINESS OVERVIEW (Cont'd)

For our F&B outlets, we have also been actively conducting in-store promotional activities. We offer promotional discounts, weekly or monthly special offers and special promotions in conjunction with special occasions or festivals. We strive to keep our menu fresh with periodical new product offerings. In addition, we pay close attention to the interior and exterior designs of our F&B outlets and will make periodical renovations to improve customer experience.

In 2016, we officially launched our mascot named A-LI. A-LI was created from the conceptualisation of a friendly and cheerful, uniformed local male chef with passion for sharing good and delicious food with everyone irrespective of age, gender and race. The creation of a mascot provides a personification of our brand image to drive favourable brand association. A-LI has been widely used in all our promotional activities and materials. Please find below a picture of A-LI:



A-LI the Mascot

7. BUSINESS OVERVIEW (Cont'd)

In 2016, we launched a membership programme to reward our loyal customers for their continuing patronage of our F&B outlets. Customers who join our membership programme currently pay a fee of RM9.40 for a 2-year membership. Upon expiry, customers will have to pay for another 2-year membership at the then prevailing rate. Members can enjoy discounts on the purchase of bakery and other F&B products at all our F&B outlets. They are also eligible for special member-only promotions such as member's day discounts and "one-for-one" promotions. As at LPD, we have more than 135,000 members.



We also have a dedicated design team based in our Johor headquarters, comprising graphic designers and digital media specialist that provide creative inputs for all our packaging and promotional materials. As at LPD, our design team consists of 4 employees as follows:

Designation	Key roles and responsibilities
Team Leader (Marketing Manager)	Oversees the design team to perform its tasks
Lead Designer	Focuses mainly on projects for seasonal products' designs such as product packaging, promotional materials, advertisements, corporate identity and mascots. Also act as liaison with suppliers and R&D personnel and provide support to other departments' design requests
Designer	Responsible for outlet advertising and packaging designs, liaising with supplier and provide support to other departments' design requests
Marketing Executive	Responsible for our digital media platform

Our business development team is actively involved in the development and ultimately the commercialisation of new bakery, confectionery and other F&B products. Our business development team is tasked with providing inputs on the latest market trends including the latest demand from consumers as well as conducting products tasting and surveys.

7. BUSINESS OVERVIEW (Cont'd)**7.7 EMPLOYEES**

As at LPD, we have a total workforce of 1,263 employees, which consists of permanent local employees and contractual foreign employees.

Local employees accounted for 72.1% of total workforce as at LPD while the 27.9% were foreign workers (general workers). All of our foreign workers have valid working permits or registered under Illegal Immigrants Rehiring Programme (approved by the Ministry of Home Affairs, Malaysia) ("PATI"). The following depicts the breakdown of our employees in our Group:

Category of employees	Number of employees	
	As at 31 March 2019	As at LPD
<u>Wholesale channel</u>		
Director	3	3
Manager	21	17
Executive	56	49
Supervisor	79	77
Clerk	44	42
Driver	33	33
Van salesman	295	280
General worker		
• Local	40	.33
• Foreign	233	(1)233
	273	271
	804	772

7. BUSINESS OVERVIEW (Cont'd)

Category of employees	Number of employees	
	As at 31 March 2019	As at LPD
Retail channel		
Director	2	2
Manager	31	32
Executive	18	23
Supervisor	60	60
Clerk	20	19
Driver	21	20
General worker		
• Local	39	38
• Foreign	112	⁽¹⁾ 119
	151	157
Kitchen/Service Crew	187	178
	490	491
Total	1,294	1,263

Note:

- (1) For wholesale channel, 205 foreign workers have valid working permits and 28 foreign workers registered under PATI Programme. For retail channel, 95 foreign workers have valid working permits and 24 foreign workers registered under PATI Programme. SDS Food, SDS Top Baker and SDS B&C has prior to 30 June 2018, submitted application via online for their foreign workers who are qualified for PATI Programme and registration slips have since been issued for each of the foreign workers. As at the LPD, 17 applications are still being processed by MyEG Services Berhad, 33 applications are still being processed or pending approval by the Immigration Department and 2 applications (out of the 24 foreign workers for retail channel) were not approved due to 1 of the foreign employee being blacklisted by the Immigration Department of Malaysia and the other one was medically unfit, which we are in the midst of arranging repatriation of the relevant foreign workers. Further details on PATI are set out at the end of Appendix I.

As at LPD, all our employees are based in Malaysia.

None of our employees belong to any labour union. The relationship and co-operation between our management and our employees have always been good and this is expected to continue in the future. As at LPD, there is no major industrial dispute pertaining to our employees. Over FYE 2016 to 2019, there has not been any incident of work stoppage or labour disputes that has materially affected our operations.

7. BUSINESS OVERVIEW (Cont'd)**7.8 MAJOR CUSTOMERS**

For our retail channel, our customers are walk-in patrons to our F&B outlets.

Although our revenue from Singapore constituted only 14.3%, 11.2%, 8.3% and 7.1% of our total revenue for FYE 2016, 2017, 2018 and 2019 respectively, our major customers as set out in the table below include customers from Singapore for the following reasons:

- (a) our wholesale sale of bakery products in Malaysia are spread out over approximately 1,110 credit customers where our sales per customer range from RM12.50 to RM1,789,628 with an average of RM33,360 for FYE 2016 to 2019; and
- (b) on the contrary, our wholesale sale of bakery products to Singapore throughout FYE 2016 to 2019 are channelled through distributors such as Regina Cake House and Sin Lee Hiang Cake House who act as our distributors to the retailers.

Save for the walk-in patrons to our F&B outlets, the top 5 customers of our Group for FYE 2016 to 2019 are as follows:

	Customer	Country of origin	Principal activities	Type of products and services	Revenue contribution		Length of relationship as of FYE 2019
					RM'000	%	
FYE 2016							
(1)	Regina Cake House ⁽¹⁾	Singapore	Distribution of bakery products in Singapore	Bakery products	4,945	5.3	11
(2)	Sin Lee Hiang Cake House ⁽¹⁾	Singapore	Distribution of bakery products in Singapore	Bakery products	2,859	3.0	11
(3)	AEON Co. (M) Bhd ⁽³⁾	Malaysia	Hypermarket	Bakery products	2,807	3.0	15
(4)	Farmland Central Bakery (S) Pte Ltd ⁽²⁾	Singapore	Manufacturing and distribution of bread	Bakery products	2,703	2.9	11
(5)	Bunlink Sdn Bhd	Malaysia	Wholesale of biscuits, cakes, breads and other bakery products	Bakery products	1,687	1.8	10
					15,001	16.0	

7. BUSINESS OVERVIEW (Cont'd)

Customer	Country of origin	Principal activities	Type of products and services	Revenue contribution		Length of relationship as of FYE 2019
				RM'000	%	
FYE 2017						
(1) Regina Cake House ⁽¹⁾	Singapore	Distribution of bakery products in Singapore	Bakery products	5,715	4.1	11
(2) Farmland Central Bakery (S) Pte Ltd ⁽²⁾	Singapore	Manufacturing and distribution of bread	Bakery products	3,193	2.3	11
(3) PT Top Baker Indonesia	Indonesia	Manufacturing and distribution of bakery products in Indonesia	Food paste	3,134	2.3	4
(4) Sin Lee Hiang Cake House ⁽¹⁾	Singapore	Distribution of bakery products in Singapore	Bakery products	3,204	2.3	11
(5) AEON Co. (M) Bhd ⁽³⁾	Malaysia	Hypermarket	Bakery products	2,868	2.1	15
				18,114	13.1	
FYE 2018						
(1) Regina Cake House ⁽¹⁾	Singapore	Distribution of bakery products in Singapore	Bakery products	4,628	2.7	11
(2) Farmland Central Bakery (S) Pte Ltd ⁽²⁾	Singapore	Manufacturing and distribution of bread	Bakery products	4,454	2.6	11
(3) PT Top Baker Indonesia	Indonesia	Manufacturing and distribution of bakery products in Indonesia	Food paste	3,523	2.0	4
(4) AEON Co. (M) Bhd ⁽³⁾	Malaysia	Hypermarket	Bakery products	3,336	1.9	15
(5) Sin Lee Hiang Cake House ⁽¹⁾	Singapore	Distribution of bakery products in Singapore	Bakery products	2,285	1.3	11
				18,226	10.5	

7. BUSINESS OVERVIEW (Cont'd)

	Customer	Country of origin	Principal activities	Type of products and services	Revenue contribution		Length of relationship as of FYE 2019
					RM'000	%	
FYE 2019							
(1)	Regina Cake House ⁽¹⁾	Singapore	Distribution of bakery products in Singapore	Bakery products	4,380	2.3	11
(2)	Farmland Central Bakery (S) Pte Ltd ⁽²⁾	Singapore	Manufacturing and distribution of bread	Bakery products	4,316	2.3	11
(3)	AEON Co. (M) Bhd ⁽³⁾	Malaysia	Hypermarket	Bakery products	4,140	2.2	15
(4)	PT Top Baker Indonesia	Indonesia	Manufacturing and distribution of bakery products in Indonesia	Food paste	2,739	1.5	4
(5)	Sin Lee Hiang Cake House ⁽¹⁾	Singapore	Distribution of bakery products in Singapore	Bakery products	2,248	1.2	11
					17,823	9.5	

Notes:

⁽¹⁾ Regina Cake House and Sin Lee Hiang Cake House have ceased being distributors of our bakery products in Singapore in March 2019 and May 2019 respectively. Since then, such distribution business is assumed by JC Food Supplies Pte Ltd. Tan Kim Chai, Tan Kee Jin and Tan Yong Thye who are our Promoters are also Partners and shareholders in Regina Cake House and Sin Lee Hiang Cake House. Please refer to Section 10.2.1 for further details of our relationship with them.

⁽²⁾ Our OEM customer in Singapore.

⁽³⁾ Retailer of our bakery products in Malaysia.

We are not dependent on any of the top 5 customers. We have maintained good relationship with the above customers and there has been no material disputes experienced by our Group as at LPD.

7. BUSINESS OVERVIEW (Cont'd)**7.9 MAJOR SUPPLIERS**

The top 5 suppliers of our Group for FYE 2016 to 2019 are as follows:

	Supplier	Country of origin	Principal activities	Type of products and services	Purchase value		Length of relationship as of FYE 2019
					RM'000	%	
FYE 2016							
(1)	Seberang Flour Mill Sdn Bhd	Malaysia	Manufacturing and distribution of flour	Flour	6,780	14.6	19
(2)	Cinei Food Ingredients Sdn Bhd	Malaysia	Manufacturing and distribution of sugar, nuts, food colour and fillings	Sugar, milk compound, chocolate chips, cocoa powder, chocolate fillings and nuts	3,404	7.3	27
(3)	Mega Confectionery Sdn Bhd	Malaysia	Manufacturing various types of jams	Various types of jams	2,425	5.2	11
(4)	Fuji Oil Asia Pte Ltd	Singapore	Sales of oils and fats, ingredients for confectionery and bakery products	Edible oil, custard, shortening	2,393	5.1	9
(5)	Prestasi Flour Mill (M) Sdn Bhd	Malaysia	Manufacturing and distribution of flour, bread and noodles	Flour	2,220	4.8	11
					17,222	37.0	
FYE 2017							
(1)	Prestasi Flour Mill (M) Sdn Bhd	Malaysia	Manufacturing and distribution of flour, bread and noodles	Flour	8,153	11.5	11
(2)	Seberang Flour Mill Sdn Bhd	Malaysia	Manufacturing and distribution of flour	Flour	6,157	8.7	19

7. BUSINESS OVERVIEW (Cont'd)

	Supplier	Country of origin	Principal activities	Type of products and services	Purchase value		Length of relationship as of FYE 2019
					RM'000	%	
(3)	Cimei Food Ingredients Sdn Bhd	Malaysia	Manufacturing and distribution of sugar, nuts, food colour and fillings	Sugar, milk compound, chocolate chips, cocoa powder, chocolate fillings and nuts	4,449	6.3	27
(4)	Mega Confectionery Sdn Bhd	Malaysia	Manufacturing various types of jams	Various types of jams	2,928	4.1	11
(5)	TM Fresh Marketing Sdn Bhd	Malaysia	Manufacture of various types of snacks, dairy products, jams and beverages	Dairy products	2,700	3.8	9
					24,387	34.4	
FYE 2018							
(1)	Prestasi Flour Mill (M) Sdn Bhd	Malaysia	Manufacturing and distribution of flour, bread and noodles	Flour	9,391	10.3	11
(2)	Seberang Flour Mill Sdn Bhd	Malaysia	Manufacturing and distribution of flour	Flour	7,376	8.1	19
(3)	Cimei Food Ingredients Sdn Bhd	Malaysia	Manufacturing and distribution of sugar, nuts, food colour and fillings	Sugar, milk compound, chocolate chips, cocoa powder, chocolate fillings and nuts	5,367	5.9	27
(4)	G.K. Ingredients (M) Sdn Bhd	Malaysia	Manufacturer of bakery products from various bread improvers and softeners, flavors, cake premixes and emulsifiers	Shortening, edible oil, additives and flavouring	3,334	3.7	7
(5)	TM Fresh Marketing Sdn Bhd	Malaysia	Manufacture of various types of snacks, dairy products, jams and beverages	Dairy products	3,066	3.4	9
					28,534	31.4	

7. BUSINESS OVERVIEW (Cont'd)

Supplier	Country of origin	Principal activities	Type of products and services	Purchase value		Length of relationship as of FYE 2019
				RM'000	%	
FYE 2019						
(1) Prestasi Flour Mill (M) Sdn Bhd	Malaysia	Manufacturing and distribution of flour, bread and noodles	Flour	9,948	10.5	11
(2) Seberang Flour Mill Sdn Bhd	Malaysia	Manufacturing and distribution of flour	Flour	6,937	7.4	19
(3) Cimei Food Ingredients Sdn Bhd	Malaysia	Manufacturing and distribution of sugar, nuts, food colour and fillings	Sugar, milk compound, chocolate chips, cocoa powder, chocolate fillings and nuts	4,932	5.2	27
(4) Dermypack Plastic (M) Sdn Bhd	Malaysia	Manufacturing and printing of plastic bags	Packaging materials	3,504	3.7	12
(5) G.K. Ingredients (M) Sdn Bhd	Malaysia	Manufacturer of bakery products from various bread improvers and softeners, flavors, cake premixes and emulsifiers	Shortening, edible oil, additives and flavouring	3,471	3.7	7
				28,792	30.5	

For FYE 2016 to 2019, our top 5 suppliers accounted for 37.0%, 34.4%, 31.4% and 30.5% of our total purchases for the respective financial years. Flour is the single most important ingredient used in producing our bakery products. Seberang Flour Mill Sdn Bhd and Prestasi Flour Mill (M) Sdn Bhd were our major flour suppliers for FYE 2016 to 2019.

Notwithstanding the above, we are not dependent on any single supplier as we have also purchased flour and other raw materials from other smaller suppliers to mitigate the risk of being overly dependent on any single supplier. We have maintained good working relationship with the above suppliers and there have been no material disputes or disruptions in supplies experienced by our Group so far. While we have no direct purchase agreements with suppliers, we believe there are several companies capable of supplying each of our raw materials and anticipate being able to continue to obtain raw materials and other products going forward.

7. BUSINESS OVERVIEW (Cont'd)**7.10 SOURCES AND AVAILABILITY OF RAW MATERIALS**

The main component of our cost of sales is the food ingredients used to produce our bakery and other food products. Key ingredients include flour, sugar, dairy products, edible oil and eggs amongst others. Some of these ingredients are considered as perishable products with a short shelf life. Other notable components of our cost of sales include packaging materials and liquefied petroleum gas for our baking process. These raw materials are mostly available in Malaysia and are sourced from our pool of suppliers.

Our Group has not faced acute shortages or major price differentials for any of our major ingredients for the financial years under review which have materially affected our financial performance.

The major types of raw materials purchased for our Group's business operations in FYE 2016 to 2019 are as follows:

Raw materials	FYE 2016		FYE 2017		FYE 2018		FYE 2019	
	Purchases		Purchases		Purchases		Purchases	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Food ingredients								
• Flour	9,657	20.8	16,068	22.7	18,508	20.3	19,616	20.8
• Sugar, dairy products, edible oil, eggs, additives and yeast	18,945	40.7	28,764	40.6	33,232	36.5	33,494	35.5
• Other food ingredients								
- Frozen food	1,985	4.3	3,382	4.8	4,548	5.0	4,975	5.3
- Fruit and vegetables	1,431	3.1	1,962	2.8	2,584	2.8	3,043	3.2
- Jam(chocolate and chocolate peanut)	2,029	4.4	2,327	3.2	2,682	2.9	2,799	3.0
- Others ⁽¹⁾	5,879	12.6	9,854	13.9	19,576	21.5	19,724	20.9
	11,324	24.4	17,525	24.7	29,390	32.4	30,541	32.4
Packaging materials	6,244	13.4	8,231	11.6	9,485	10.4	10,091	10.7
Others ⁽²⁾	325	0.7	312	0.4	377	0.4	633	0.6
	46,495	100.0	70,900	100.0	90,992	100.0	94,375	100.0

Notes:

⁽¹⁾ Includes many other food ingredients such as coffee and cocoa powder, filling, flavouring, syrups and spices, each representing not more than 1.5% of our purchases for the respective financial years.

⁽²⁾ Include mainly cake decorations.

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7. BUSINESS OVERVIEW (Cont'd)

7.11 SEASONAL OR CYCLICAL EFFECTS

We generally experience higher sales during festive seasons and special occasions such as Chinese New Year, Mid-Autumn Festival, Mother's Day and Father's Day. We are also affected by the Muslim fasting month, where the sales of our bakery, confectionery and other F&B products are typically lower than those registered outside the fasting month.

7.12 INTERRUPTION IN THE BUSINESS

Our Group has not experienced any interruption which has had a significant effect on our business during the 12 months preceding LPD.

7.13 TECHNOLOGIES USED OR TO BE USED

The technologies used by our Group are detailed as follows:

(a) Wholesale channel

Over the past years, our Group had invested in various food processing machinery to increase the level of automation at our manufacturing plants. The sandwich loaf production processes (including mixing, dividing, proofing, baking, cooling as well as the packing of the resulting finished products) undertaken at our manufacturing plant in Seremban are fully automated. However, our other production lines in Seremban are semi-automated. Meanwhile, the production processes at our manufacturing plant in Kempas are semi-automated. All our machineries are imported from China, Japan and Europe.

We have also equipped our van salesmen with handheld point-of-sales device to facilitate on-site data capture and issuance of simplified tax invoice. As at LPD, 250 handheld point-of-sales devices are being deployed by our Group.

(b) Retail channel

Each of our F&B outlets is also equipped with a retail point-of-sales system to facilitate in-store cashless payment as well as a closed-circuit television system as a security safeguard measure. We also rely on the use of a loyalty programme system called Myth Solution to undertake the management of our loyalty programme. The loyalty programme system is purchased outright from its vendor.

7. BUSINESS OVERVIEW (Cont'd)

7.14 QUALITY CONTROL PROCEDURES OR QUALITY MANAGEMENT PROGRAMMES

As an organisation in the food industry, our Group places strong emphasis on the safety of all our products. We are committed in ensuring that the food safety management system that we have put in place to control food safety hazards is in line with internationally acceptable practice. We believe that this can reinforce our efforts to ensure that our products are consistently safe at the time of human consumption.

To this end, Daily Bakery successfully obtained the certification of 'MeSTI' which is a food safety programme undertaken by the Ministry of Health Malaysia for its new manufacturing plant in Seremban. The validity period of the MeSTI certification is for 3 years from 19 July 2018 to 18 July 2021. Daily Bakery is able to meet the minimum requirements of the Food Hygiene Regulations 2009. With the certification, Daily Bakery can use the MeSTI certification logo on all its products, which provides assurance to consumers of the safety of bakery products manufactured at its manufacturing plant in Seremban. There are 10 elements that are evaluated under the MeSTI programme namely design and facility, food handling, training, maintenance and sanitation, raw material control, process control, packaging control, storage control, transport and distribution controls as well as traceability controls. (Note: It is mandatory for each owner and occupier of food manufacturing premises to prepare and establish a Food Safety Assurance Programme pursuant to the Food Hygiene Regulations 2009). Since the manufacturing plant in Seremban has obtained MeSTI, which is similar in nature to Hazard Analysis and Critical Control Point ("HACCP"), and the products produced in Seremban are for the local market, we do not have immediate plans to apply for HACCP for the manufacturing plant in Seremban.

Besides that, we have established a food safety management system that meets the requirements of the ISO 22000:2005. SDS Top Baker has been certified ISO 22000:2005 in controlling food safety hazards in order to ensure that our products are safe at the time of consumption. SDS Top Baker's food safety management system conforms to the requirements under the scope of manufacture of bakery and confectionery products. Such ISO 22000:2005 certification was subsequently renewed for another 3-year period beginning from 3 January 2017. For its manufacturing plant in Kempas, SDS Top Baker has also obtained confirmation that it has implemented and maintains a system for HACCP following the CODEX Guidelines for the Application of the HACCP System and Good Manufacturing Practise, both of which are valid from 3 January 2017 to 2 January 2020.

The applications of ISO 22000:2005 aim to provide products that are safe at the time of human consumption, demonstrate compliance and conformity to mutually agreed customer requirements related to food safety as well as applicable statutory and regulatory food safety requirements and provide effective communication on food safety issues to customers, suppliers and other stakeholders in the food chain.

The overall intentions and directions of our Group related to food safety are formally expressed in our food safety policy as follows:

'We are committed to provide consistent and safe quality products which meet customer requirements and conform to statutory and regulatory food safety requirements. We will also strive to continue improving our food safety management system in accordance to the requirements of the ISO 22000 standard and the principles of HACCP.'

We have developed a Food Safety Manual which documents our food safety management system including our food safety policy and related objectives, procedures and records required under ISO 22000:2005 and documents needed for effective development, implementation and updating purposes. A Document Controller has been appointed and she is tasked with maintaining and distributing the Food Safety Manual. The master copy of the Food Safety Manual is kept by our Food Safety Team Leader.

7. BUSINESS OVERVIEW (Cont'd)

The scope of our Food Safety Manual revolves around 4 key elements in order to meet customer requirement and ensure customer satisfaction based on the operating model as follows:



Our Group has also obtained the Certificate of Authentication Halal for our F&B products from JAKIM.

7.15 R&D

Our Group's R&D activities primarily revolve around efforts to create new products and improve existing products to cater to our consumers' changing taste and achieve better product quality. Our R&D activities include keeping abreast with market trends for latest bakery products, conceptualising and designing new products, experimenting with new ingredients, developing new products, product quality review and conducting product testing.

Our R&D team consists of key personnel from various departments namely business development, production (including chefs), marketing, quality assurance and procurement. The team is tasked with the responsibility to develop new products. Depending on the type of R&D projects, 4 to 8 personnel are usually tasked to form an R&D team.

All of our R&D activities are based in the Kempas plant. As at LPD, the on-going R&D projects undertaken by our Group are new products to be launched for the forthcoming Christmas and Chinese New Year, Christmas set lunch and dinner menu for our F&B outlets, as well as hampers for these festive seasons.

All expenses incurred for our R&D activities are expensed off when they are incurred as part of our cost of sales as the raw material costs for our R&D activities are not material.

7. BUSINESS OVERVIEW (Cont'd)

7.16 COMPETITIVE STRENGTHS**7.16.1 We have our own dedicated and extensive logistics capability to drive distribution activities**

Our Group has the capability to undertake extensive logistics activities to support the distribution of our wholesale bakery products with the availability of a sizeable fleet of delivery vehicles, an in-house team of logistics personnel as well as various depots located across Peninsular Malaysia. For our distribution in Malaysia, we do not need to engage the services of third-party transport providers, warehouse operators or supply chain managers.

As at LPD, we have 250 1-tonne delivery vehicles to undertake the wholesale distribution of our bakery products to our customers in Malaysia. As at LPD, our Group also has 19 depots within Peninsular Malaysia and 280 van salesmen to undertake the required logistical operations for our wholesale channel. Further details on the breakdown of our logistics arrangement by geographical locations are set out in Section 7.3.1(c).

Our in-house logistics arrangement provides us more control and flexibility in terms of our delivery and pick-up time. We also benefit from lower logistics related costs as compared to costs incurred when engaging the services of third-parties in the long run.

We also have 20 1-tonne delivery vehicles to support the logistics requirements of our F&B outlets.

7.16.2 Established brands and marketing drive

We believe that our brands, 'SDS', 'Top Baker' and 'Daily's', have become recognised in the markets that we serve. Our flagship brand 'SDS' has been in existence since 1987 while 'Top Baker' and 'Daily's' have been around since 2009 and 1989 respectively. Our brand history has helped to increase awareness of our products among consumers.

Based on our revenue growth, we believe that we have generated goodwill over the years with consumers identifying us for the quality products carried under our brands. Our multiple brands and product strategies serve to target different segments of consumers across different geographical areas; helping us to broaden our consumer base and revenue streams. Our 'SDS', 'Top Baker' and 'Daily's' brands have been successfully registered as trademarks in Malaysia in 2015 and 2012 respectively. On 31 May 2018, we have also applied for our updated 'Daily's' logo to be registered in Malaysia, which application is under examination by MyIPO. On 30 October 2018, we have also applied for our mascot "A-LI" to be registered in Malaysia. With protection of our intellectual properties, our Group has continued to undertake marketing activities to drive brand awareness and increase sales. Please refer to Section 7.6 for details on our sales and marketing activities.

We strive to distinguish our F&B outlets from other traditional ones by offering products that are in line with the latest trend and contemporary lifestyle of today's consumers. We also have a refurbishment programme to keep our F&B outlets trendy, updated and relevant to improve their aesthetic appeal and enhance consumers' experience. Our Group believes that our refurbishment programme has been well received by consumers as our F&B outlets have generally experienced an increase in sales following a completed refurbishment exercise.

7. BUSINESS OVERVIEW (Cont'd)

7.16.3 Extensive portfolio of products with continued innovation

As at LPD, we have an extensive portfolio of products consisting of 708 bakery products (such as breads, buns, rolls and cakes). However, approximately 77.1% of the 708 bakery products are sold daily via wholesale and retail channels with at least 180 different bakery and other F&B products being offered at all our F&B outlets. The remaining 22.9% are festive products which are sold only during festive seasons and special occasions.

Our Group understands the importance of continued evolvement while keeping the tradition and offerings that our loyal consumer base has come to know and love. In addition, we are also mindful on the varied needs and changing taste of consumers over time. As such, our Group is involved in R&D with focus on creating and rolling out new products to the market in a timely manner. Please refer to Section 7.15 for further details on our R&D activities.

For our wholesale channel, we strive to launch traditional or entirely new products to complement our existing product offerings. Our Group pursues line extensions, where we introduce new products under our existing brand such as new flavours, added ingredients and different package sizes. New products that have garnered high acceptance rate are eventually added into our permanent product offerings.

For our retail channel, we strive to introduce at least 1 new bakery product each month at our F&B outlets to provide new varieties to our consumers. New products that have garnered high acceptance rate are eventually added into our permanent product offerings. At least a product is also offered each month at our F&B outlets as a 'special promotion item' for a specific duration such as a 1-day, 1-week or 1-month period.

From time to time, we introduce promotional products or packages to our F&B outlets. Our Group will also continue to offer featured bakery products or signature dishes as part of our marketing campaigns to retain existing consumers and attract new consumers.

Our business diversification in both the wholesale and retail channels differentiates us from our competitors as none of our competitors are involved in both channels. With presence and experience in both channels, we are able to leverage on the strength of both channels to expand our business. The wholesale channel allows us to enjoy lower costs as the higher sales and production volume enable us to purchase raw materials in bulk quantities at lower prices. The retail channel on the other hand is a good way to build customer relations and our brand names.

7.16.4 Centralisation in core production functions that drives product uniformity and economies of scale

Our Group embarks on a 'hub-and-spoke' model that involves the centralisation of core production functions at our central kitchen to supply bakery, confectionery and other F&B products to all our F&B outlets. This ensures uniformity in the ingredients, presentation and quality of all products sold at our F&B outlets. The quality of our products can be easily monitored and controlled from a single source to ensure their consistency. Hence, our consumers can expect to get the same standard quality of products from whichever F&B outlets that they visit.

7. BUSINESS OVERVIEW (Cont'd)

Our Group is also better positioned to reap economies of scale and enjoy the resulting cost savings. All the procurement of food ingredients, packaging and marketing materials as well as other inputs required for our operations can be conducted by a centralised purchasing department. This puts us in a better bargaining position when negotiating prices with our suppliers due to the higher volume of orders involved. Besides that, we stand to enjoy bulk discounts and other favourable payment terms such as a longer payment period or no requirement for a deposit. In addition, we will be able to undertake a more effective inventory management and resources optimisation in terms of manpower allocation (particularly for bakers and/or chefs) as well as minimisation of food wastages.

7.16.5 Our sandwich loaf production line in Seremban is fully automated

As at LPD, our main sandwich loaf production line is located in our Seremban manufacturing plant. For FYE 2019, the Seremban sandwich loaf line produced 85.7% of our total sandwich loaf (in terms of number of packages). The sandwich loaf production line at our manufacturing plant in Seremban is fully automated. We have invested RM13.5 million in imported machineries from China, Japan and Europe to undertake processes such as mixing, dividing, proofing, baking, cooling and packing. The fully automated process minimises the risk of contamination as there is less human intervention. Besides that, the resulting products from the fully automated production line are expected to be more uniform in terms of quality and size which helps to reduce food wastages. More importantly, this automated sandwich loaf production line has increased our sandwich loaf production capacity by 3 times from 1,000 sandwich loaf per hour to 3,000 sandwich loaf per hour.

7.16.6 Experienced key senior management team

Our Group is spearheaded by our co-founders, Tan Kim Seng and Tan Kim Chai, who are considered industry veterans and have each participated in the bakery products market for over 30 years. They have gained extensive and in-depth knowledge as well as good understanding on the dynamics of the market including consumer preference.

Under the leadership of our co-founders, Tan Kim Seng and Tan Kim Chai who are also our Managing Director and Executive Director respectively, our Group has grown from a small retail bakery with only 5 employees to an organisation with approximately 1,200 employees.

In addition, our Group believes that we have a strong supporting cast of other key senior management that can help to chart our growth path and sustained competitiveness. Our key senior management have on average over 10 years of experience and expertise across various key business functions.

Please refer to Sections 5.2.2 and 5.3.3 for further details of the credentials of our Directors and key senior management.

7. BUSINESS OVERVIEW (Cont'd)

7.17 BUSINESS STRATEGIES AND PROSPECTS

Our business objectives are to maintain sustainable growth in our business and create long-term shareholder value. To achieve our business objectives, we will implement the following business strategies over a period of 24 months from the date of our Listing:

7.17.1 Expanding local geographical footprints
Wholesale channel

The commissioning of our new manufacturing plant in Seremban has provided us with sizeable production capacity and closer logistical support to expand our local geographical footprints outside of Johor, particularly to the central and northern region of Peninsular Malaysia.

We have adopted a 2-pronged strategy in extending the reach of our bakery products via the wholesale channel namely, (a) organically expanding our customer base and our distribution network from our existing or new depots; and (b) tapping into the network of our existing national/ regional retail chain customers in the targeted areas. In order to support this future plan, we intend to set up 2 new depots in Bukit Mertajam, Penang and Sungai Petani, Kedah and purchase 18 new delivery vehicles. We have allocated RM2.0 million of the IPO proceeds for the purchase of these delivery vehicles. The set-up cost of the 2 depots will be financed through our internally generated funds.

Retail channel

For the retail channel, we intend to expand our presence into the Klang Valley with the opening of 8 new F&B outlets. At this juncture, we have yet to identify the format of the F&B outlets which will depend on the exact location of the outlets. We have allocated RM4.0 million of the IPO proceeds to fund this business strategy.

7.17.2 Providing door-step delivery of our F&B products to consumers via established food delivery providers

We have identified an opportunity gap that allows us to reach out directly to consumers instead of passively waiting for them to patron our F&B outlets. In October 2018, we have commenced using Food Panda as our food delivery provider. We will be exploring opportunities to enter into strategic business collaboration with other established food delivery service providers in Malaysia within the next 12 months. These service providers offer online and mobile platform for our consumers to purchase our F&B products, and they also deliver the purchases to our consumers. Such an arrangement can help us to diversify our sale points and allow us to tap into a growing connected consumer base that is looking for quick and convenient options to order our F&B products.

We intend to execute this business strategy using our internally generated funds.

7.17.3 Venturing into the franchising business model

We intend to establish a franchise system as a mean to further drive the penetration rate of our F&B outlets across Peninsular Malaysia within a short period without incurring heavy capital commitment. As the franchise system is already established in Malaysia with formalised regulatory framework, we believe that it is an attractive investment proposition that can attract potential franchisees to join us. We stand to exert more control in terms of store design, menu, product and promotional drive with the franchising model as compared to the licensing model.

7. BUSINESS OVERVIEW (*Cont'd*)

By adopting the franchising business model, we, as franchisor, will be able to:

- (a) maintain a higher degree of control over the operations and processes used by the franchisee, as compared to a licensing arrangement where our Group (as licensor) has little to no operational control as to how the products are utilised or distributed by the licensee; and
- (b) restrain franchisee from future independent trade for 2 years upon termination as opposed to licensing arrangement where we are unable to do so.

In addition, we also have to ensure that the branches of franchisees do not cannibalise each other's revenues and also give assistance such as branding and marketing support to the franchisees. We will have to provide extensive training to the franchisee on the operations of the F&B outlets.

We plan to start our franchise programme by 2020, initially focusing on setting up franchise F&B outlets in Klang Valley. With the roll-out of the franchise programme, we will phase out our licensing arrangement with existing licensees. They will be given the option to become our franchisee. We are currently preparing all the required documents for submission to the Franchise Registry.

We intend to execute this business strategy using our internally generated funds.

7.17.4 Prospects of our Group

We believe the prospects of our Group are favourable as our business is driven by an experienced key senior management team. Our extensive portfolio of products that are sold under 3 established brands over the years put our Group in a good position to drive business growth. With a sizeable pool of delivery vehicles and a newly commissioned fully automated sandwich loaf production line to support our wholesale channel along with the 'hub-and-spoke' model embarked for our retail channel, we are in pursuit of new business growth opportunities. Further details on our competitive strengths are set out in Section 7.16.

The outlook of the bakery products and restaurant and cafeteria/canteen market in Malaysia is expected to be positive. According to the IMR Report:

- (a) the bakery products market in Malaysia is valued at RM3,725.8 million in 2018 and is expected to grow at a forecast CAGR of 5.9% to reach RM4,967.1 million in 2023; and
- (b) the size of the restaurant and cafeteria/canteen market in Malaysia stood at RM46.62 billion in 2018 and is expected to grow at a forecast CAGR of 8.6% to reach RM70.42 billion in 2023.

Further details on our prospects and outlook of the market are set out in Section 8 (subsection 3.0 and 4.2) of the Prospectus.

We are mindful of the high level of fragmentation in the markets that we are participating in, as highlighted in the IMR Report. We acknowledge that the competition for shelf space, retail space and sales is intense. We could lose market share due to competitive pressures or other factors which may necessitate us to increase our marketing and advertising expenditures, lower the prices of our products and/or use discounting or promotional campaigns more frequently. Such measures could adversely affect our operating results and profitability. Nonetheless, we will strive to increase the level of our competitiveness to keep abreast or stay ahead of competition.

7. BUSINESS OVERVIEW (*Cont'd*)

Our Group has earmarked RM6.0 million, representing 25.0% of the IPO proceeds, for the purchase of new delivery vehicles and opening of new F&B outlets. These can help to expand our distribution network to reach out to more consumers and strengthen our wholesale and retail presence leading to further business growth. Please refer to Section 4.9 for further details on the utilisation of IPO proceeds.

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8. EXECUTIVE SUMMARY OF THE STRATEGIC ANALYSIS OF THE BAKERY PRODUCTS MARKET WITH AN OVERVIEW OF THE RESTAURANT AND CAFETERIA/CANTEEN MARKET IN MALAYSIA

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Protégé
ASSOCIATES

BRAND | FINANCE | MARKET

The information in this Section 8 is based on market research conducted by Protégé Associates commissioned by SDSG for the purpose of the IPO.

17 AUG 2019

The Board of Directors
SDS Group Berhad,
No. 5A, Jalan Selatan 8
Off Jalan Kempas Lama
Kawasan Perusahaan Ringgan Pulau
81200 Johor Bahru
Malaysia

Dear Sirs,

Executive Summary of the Strategic Analysis of the Bakery Products Market with an Overview of the Restaurant and Cafeteria/ Canteen Market in Malaysia

Protégé Associates Sdn Bhd ("Protégé Associates") has prepared this executive summary of the 'Strategic Analysis of the Bakery Products Market with an Overview of the Restaurant and Cafeteria/Canteen Market in Malaysia' for inclusion in the prospectus of SDS Group Berhad ("SDSG") in relation to its listing on the ACE Market of Bursa Malaysia Securities Berhad.

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

Mr. Seow Cheow Seng is the Managing Director of Protégé Associates. He has 19 years of experience in market research, having started his career at Frost & Sullivan where he spent 7 years. He has been involved in a multitude of industries covering Automotive, Electronics, Healthcare, Energy, IT, Oil and Gas, etc. He has also provided his market research expertise to government agencies such as Malaysia Digital Economy Corporation Sdn Bhd, Malaysia Debt Ventures Berhad and Malaysia Technology Development Corporation Sdn Bhd.

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

Thank you.

Yours sincerely,



SEOW CHEOW SENG
Managing Director

8. EXECUTIVE SUMMARY OF THE STRATEGIC ANALYSIS OF THE BAKERY PRODUCTS MARKET WITH AN OVERVIEW OF THE RESTAURANT AND CAFETERIA/CANTEEN MARKET IN MALAYSIA (*Cont'd*)



1.0 Overview of the Bakery Products Market in Malaysia

The bakery products market in Malaysia is a part of the food products manufacturing industry and encompasses a wide range of products including cakes, rolls, pastries, biscuits and cookies, breakfast cereals and snacks. Along with increasing demand for bakery products in the country, the number of manufacturers of bakery products has also been rising. As at the end of 2015, based on the latest Economic Census for the Manufacturing Industry 2016 released by the Department of Statistics Malaysia ("DOSM"), there were 3,246 establishments that was involved in the wholesale manufacturing of bakery products. As there were no major changes in the business environment and regulations to the bakery products manufacturing industry, the statistics dated 2015 was used to forecast the estimated number of establishments in 2019. The number of establishments is forecast to reach more than 4,300 in 2019.

The bakery products in Malaysia comprises mainly of small and medium enterprises ("SMEs") that are owned by Malaysian. Besides SMEs, there are also notable foreign companies producing bakery products in Malaysia. These bakery product manufacturers include commercial bakeries producing wholesale bakery products for hypermarkets, supermarkets and convenience stores, traditional standalone or chain retail bakeries selling freshly baked products in their shops, as well as home bakeries selling their products in morning or night markets.

There has been an increase in demand for bakery products over the years, attributed to bakery product manufacturers innovatively promoting their products as well as from changing food consumption trends whereby consumers are becoming increasingly health conscious. This has led to the rise in the popularity of trans-fat free, multi-grain and wholegrain based bakery products that are low fat, low calorie and enriched with vitamins and minerals.

Figure 1: Historical Market Size (Revenue) and Growth Forecast for the Bakery Products Market in Malaysia, 2018-2023

Year	Market Size (Revenue) (RM million)	Growth Rate (%)
2018	3,725.8	-
2019	3,930.7	5.5
2020	4,158.7	5.8
2021	4,408.2	6.0
2022	4,672.7	6.0
2023	4,967.1	6.3

Note: CAGR (2019-2023) (base year of 2018): 5.9%

Sources: DOSM and Protégé Associates

The bakery products market in Malaysia stood at RM3,725.8 million in 2018 and is expected to reach RM3,930.7 million in 2019. The market is supported by factors such as changing food consumption trends, preference for conveniently-packed food products, the growing affluence of Malaysians, steady population growth, a wide range of bakery products that caters to consumers of various age and income categories, better road infrastructure boosting accessibility of products, an increasing number of bakery products manufacturers as well as advancement in technology. The market is expected to continue expanding with its growth expected to hover around 5.5% to 6.3% throughout the rest of the forecast period from 2019 to 2023.

2.1 Competitive Landscape

The bakery products market in Malaysia is highly fragmented with many market players ranging from large, multinational manufacturers to small, localised home bakeries. The majority of these market players are SMEs that are owned by Malaysians. Besides local players, there are also foreign market players operating in the Malaysian bakery products. The majority of these players are located in the Klang Valley region, Melaka and Johor and can be categorised into four main segments in accordance to

8. EXECUTIVE SUMMARY OF THE STRATEGIC ANALYSIS OF THE BAKERY PRODUCTS MARKET WITH AN OVERVIEW OF THE RESTAURANT AND CAFETERIA/CANTEEN MARKET IN MALAYSIA (*Cont'd*)



the types of products they produce, namely (1) namely bread, cakes and other bakery products, (2) biscuits and cookies, (3) snacks and (4) frozen bakery products.

In Malaysia, bakery product market players can sell their products via wholesale and retail channels. Wholesale trade for bakery products in Malaysia generally involves the distribution and sales of bakery products on large quantity basis to key distribution channels such as hypermarkets, supermarkets and convenience stores. Medium- to large-scale market players generally have a fleet of trucks to deliver products to depots or directly to these distribution channels, often on a daily basis to ensure that products sold are fresh. Bakery product market players that pursue retail trade of their products in Malaysia generally consist of small-scale manufacturers of bakery products or home bakers that sell their products on relatively smaller quantity via in-house premises (bakeries, café outlets or restaurants), stalls at markets, mobile vehicles, online or even direct engagements with friends and families.

2.1.1 Distribution Landscape of Bakery Products in Malaysia

Bakery products manufactured in Malaysia are generally sold locally while a small proportion is exported to neighbouring countries such as Singapore due to their perishable nature. In the local market, wholesale bakery products can reach consumers via three main distribution channels, namely hypermarkets, supermarkets and convenience stores. On the other hand, retail bakeries or home bakeries generally sell their products at the bakeries or at morning and night markets. In addition to the above, bakery product manufacturers sometimes also use other distribution channels such as mobile retailing and online retailing to reach customers. Bakery products (in particularly those from home bakeries) are sometimes sold in cafés and restaurants as a means to provide a wider range of products to customers.

2.3 Market Player Analysis

2.3.1 Description of SDSG

SDSG is principally involved in the manufacturing and distributing of bakery products as well as operating food and beverage outlets. Its products are sold via both wholesale and retail channels.

2.3.2 Comparable Market Players

Protégé Associates has looked at competitors for both SDSG's wholesale and retail operations. SDSG's wholesale operations involve the wholesale manufacturing and distribution of bakery products under the Top Baker and Daily's brand. Examples of market players that sell their products via wholesale channels are Adventist Health Services (Malaysia) Sdn Bhd, Fuji Bakery Supplies (M) Sdn Bhd, Gardenia Bakeries (KL) Sdn Bhd, Hawaii Bakery & Food Industries (M) Sdn Bhd, Mighty Bakery Sdn Bhd, Mission Foods Malaysia Sdn Bhd, The Italian Baker Sdn Bhd, Today Bakeries Products (Klang) Sdn Bhd and Roti Sedap Sdn Bhd. The market players that were selected for comparison with SDSG's wholesale trade operations are involved in the wholesale trade of bakery products in Malaysia. However, Mission Foods Malaysia Sdn Bhd has been omitted for comparison purpose as it mainly produces flatbread products like wraps, pita breads, naan and pizza as well as tortilla chips which are not closely comparable to those offered by SDSG.

SDSG's retail operations involve its operations of cafés, bakery-cum-café and bakeries. Examples of market players that sell their products via retail channels are Bread Story Sdn Bhd, Donuts Coffee & Cake Baking (M) Sdn Bhd, Lavender Bistro Sdn Bhd, Lavender Confectionery & Bakery Sdn Bhd, Moonlight Cake House Sdn Bhd, Multiple Reward Sdn Bhd, RT Pastry House (Setapak) Sdn Bhd, Sunmoulin Yamazaki Sdn Bhd and Tong Kee Brothers Sdn Bhd. The criteria used when selecting market players in Malaysia that are involved in the retail trade of their products for comparison with SDSG are (1) Involved in the retail trade of bakery products in Malaysia via bakery or café outlets ; (2) Registered an annual revenue (on a Group level) of below RM100 million; and (3) Have operations in Johor. Protégé Associates has selected the following Malaysian companies for comparison to SDSG.

8. EXECUTIVE SUMMARY OF THE STRATEGIC ANALYSIS OF THE BAKERY PRODUCTS MARKET WITH AN OVERVIEW OF THE RESTAURANT AND CAFETERIA/CANTEEN MARKET IN MALAYSIA (Cont'd)

Figure 2: Selected Market Players in the Bakery Products Market in Malaysia

Company	Company Information
Wholesale Trade	
Adventist Health Services (Malaysia) Sdn Bhd ("Adventist")	<ul style="list-style-type: none"> Adventist was registered as a private limited company on 16 March 1991 with the Companies Commission of Malaysia ("CCM"). The company is principally engaged in the operation of bakery, commissary and cafeteria and property letting. Examples of products offered by Adventist include bread loaves, rolls and cookies. For the financial year ended 31 December 2017, Adventist registered revenue of RM10.0 million.
Fuji Bakery Supplies (M) Sdn Bhd ("Fuji Bakery")	<ul style="list-style-type: none"> Fuji Bakery was registered as a private limited company on 18 November 1997 with CCM. The company is principally engaged in the business of manufacturing and wholesaling of all kinds of bakery products. Examples of products offered by Fuji Bakery include bread loaves, buns, baguette, rolls, muffins and various types of cakes. For the financial year ended 31 December 2017, Fuji Baker registered revenue of RM93.8 million.
Gardenia Bakeries (KL) Sdn Bhd ("Gardenia")	<ul style="list-style-type: none"> Gardenia was registered as a private limited company on 2 August 1985 with CCM. The company is principally engaged in the manufacture of bakery products. Examples of products offered by Gardenia include bread loaves, buns, rolls, muffins and For the financial year ended 31 December 2017, Gardenia registered revenue of RM881.5 million.
The Italian Baker Sdn Bhd ("Italian Baker")	<ul style="list-style-type: none"> Italian Baker was registered as a private limited company on 31 March 2007 with CCM. The company is principally engaged in the business of manufacturing and distribution of bakery products. Examples of products offered by Italian Baker include assorted types of breads (such as wheat germ bread, white sandwich bread and whole wheat bread), cream rolls and cupcakes. For the financial year ended 31 December 2018, Italian Baker registered revenue of RM152.2 million.
Hawaii Bakery & Food Industries (M) Sdn Bhd ("Hawaii Bakery")	<ul style="list-style-type: none"> Hawaii Bakery was registered as a private limited company on 24 July 1990 with CCM. Its nature of business is bakery and confectionery. Examples of products offered by Hawaii Bakery are burger bun, sausage bun, butter cup cake and chocolate cake. No further analysis is performed as its financial statements are outdated as compared to other companies in this table.
Mighty Bakery Sdn Bhd ("Mighty White")	<ul style="list-style-type: none"> Mighty White was registered as a private limited company on 11 September 1995 with CCM. The company is principally engaged in the manufacture and distribution of bakery products, transporters in every description and transport agency. Examples of products offered by Mighty White include sandwich bread, cream rolls, buns and cupcakes. Mighty White is an exempt private company and as such, its financial information is not publicly available.
Roti Sedap Sdn Bhd ("Roti Sedap")	<ul style="list-style-type: none"> Roti Sedap was registered as a private limited company on 3 July 1991 with CCM. The company is a manufacturer and wholesaler of breads. Examples of products offered by Roti Sedap are cream roll, white loaf sandwich, burger bun, filling bun and sausage bun. For the financial year ended 30 June 2018, Roti Sedap registered revenue of RM48.8 million.
Today Bakeries Products (Klang) Sdn Bhd ("Today Bakeries")	<ul style="list-style-type: none"> Today Bakeries was registered as a private limited company on 16 November 1989 with CCM. The company is principally involved as bakers, manufacturers and dealers in bakeries products. Examples of products offered by Today Bakeries include various types of buns and white toast, Today Bakeries is an exempt private company and as such, its financial information is not publicly available.

8. EXECUTIVE SUMMARY OF THE STRATEGIC ANALYSIS OF THE BAKERY PRODUCTS MARKET WITH AN OVERVIEW OF THE RESTAURANT AND CAFETERIA/CANTEEN MARKET IN MALAYSIA (Cont'd)



Company	Company Information
Retail Trade	
Lavender Group	<ul style="list-style-type: none"> Lavender Group consists of Lavender Confectionery & Bakery Sdn Bhd ("Lavender Confectionery") and Lavender Bistro Sdn Bhd ("Lavender Bistro") (Lavender Bistro had changed name to The Bee Group Sdn Bhd on 6 August 2019). Both Lavender Confectionery and Lavender Bistro were registered as a private limited company on 24 November 1999 with CCM. Lavender Confectionery is principally engaged as a manufacturer and dealer in confectionery and bakery products while Lavender Bistro is an operator of cafeterias and restaurants. For the financial year ended 31 December 2018, Lavender Confectionery registered revenue of RM86.4 million and Lavender Bistro registered revenue of RM11.7 million, resulting in Lavender Group registering revenue of RM98.1 million.
Moonlight Cake House Sdn Bhd ("Moonlight Cake House")	<ul style="list-style-type: none"> Moonlight Cake House was registered as a private limited company on 1 July 2009 with CCM. The company is principally engaged as a proprietor of restaurants, baker and manufacturer of cakes, bread and all kinds of confectioneries. For the financial year ended 30 June 2018, Moonlight Cake House registered revenue of RM40.6 million.
Season Group	<ul style="list-style-type: none"> Season Group consists of Season Confectionery & Bakery Sdn Bhd ("Season Confectionery") and Season's Cafe Sdn Bhd ("Season's Cafe"). Season Confectionery was registered as a private limited company on 14 June 1982 with CCM. The company is principally engaged in the processing, baking and sales of breads, cakes and confectioneries. Season's Cafe was registered as a private limited company on 21 June 1991 with CCM. The company is principally engaged as an operator of cafeterias. Season Confectionery registered revenue of RM42.7 million for the financial year ended 31 December 2018 while Season's Cafe registered revenue of RM8.7 million the financial year ended 31 December 2017. Protégé is unable to ascertain the revenue registered by the Season Group for the financial year ended 31 December 2018 due to the unavailability of the required revenue data for Season's Cafe.

Note: The information above is updated as of 17 August 2019

Sources: CCM, the official website of selected market players and Protégé Associates

Figure 3: Comparison between SDSG and Selected Wholesale Market Players in the Bakery Products Market in Malaysia

Indicator	SDSG (Wholesale Operations)	Fuji Bakery	Italian Baker	Roti Sedap	Adventist	Gardenia
Information from the Financial Year Ended	31 March 2019	31 December 2017	31 December 2018	30 June 2018	31 December 2017	31 December 2017
Revenue (RM'000)	126,073*	93,771	152,235	48,839	9,975	881,496
Gross Profit (RM'000)	40,171*	27,366	51,700	1,986	1,986	262,781
Gross Profit Margin (%)	31.9	29.2	34.0	4.0	19.9	29.8

Notes:

- * SDSG's Revenue and Gross Profit are before inter-segment adjustments.
- The information above is updated as of 17 August 2019.
- The list of selected market players above is not exhaustive.
- The above figures only provide an indication and are not considered directly comparable due to the following reasons:
 - Not all market players have the same financial year end; and
 - Not all companies carry out activities which are completely similar to each other or in the same geographical area.
- The basis for calculating the figures and ratios in the table are as follows:
 - Gross Profit Margin = Gross Profit / Revenue

Sources: SDSG, CCM and Protégé Associates

8. EXECUTIVE SUMMARY OF THE STRATEGIC ANALYSIS OF THE BAKERY PRODUCTS MARKET WITH AN OVERVIEW OF THE RESTAURANT AND CAFETERIA/CANTEEN MARKET IN MALAYSIA (*Cont'd*)



Figure 4: Comparison between SDSG and Selected Retail Market Players in the Bakery Products Market in Malaysia

Indicator	SDSG (Retail Operations)	Moonlight Cake House	Lavender Group [#]		Season Group [#]	
			Lavender Confectionery	Lavender Bistro	Season Confectionery	Season's Cafe
Information from the Financial Year Ended	31 March 2019	30 June 2018	31 December 2018	31 December 2018	31 December 2018	31 December 2017
Revenue (RM'000)	73,327*	40,632	86,359	11,735	42,699	8,659
Gross Profit (RM'000)	16,930*	8,301	40,040	7,673	20,926	778
Gross Profit Margin (%)	23.1	20.4	46.4	65.4	49.0	9.0

Notes:

- 1) * SDSG's Revenue and Gross Profit are before inter-segment adjustments.
- 2) [#] Protégé Associates is unable to obtain the consolidated financial accounts of Lavender Group and Season Group.
- 3) The information above is updated as of 17 August 2019.
- 4) The list of selected market players above is not exhaustive.
- 5) The above figures only provide an indication and are not considered directly comparable due to the following reasons:
 - (a) Not all market players have the same financial year end; and
 - (b) Not all companies carry out activities which are completely similar to each other or in the same geographical area.
- 6) The basis for calculating the figure and ratio in the table are as follows:
 - (a) $\text{Gross Profit Margin} = \text{Gross Profit} / \text{Revenue}$

Sources: SDSG, CCM and Protégé Associates

It needs to be highlighted that the list of companies used for comparison purpose is not exhaustive and only serves as a reference for readers. For examples, Mighty White and Today Bakeries which are considered direct competitors of SDSG's wholesale operations were excluded as their financial information was not publicly available due to being private exempted companies. Hawaii Bakery was also excluded due to its financial statements are outdated as compared to other companies.

2.3 SDSG's Estimated Market Share

The revenue generated by SDSG in its financial year ended 31 March 2019 was RM187.1 million, which is equivalent to 4.8% of the estimated market size (revenue) of the bakery products market in Malaysia in 2019. The market share is derived from dividing SDSG's revenue of RM187.1 million for the financial year ended 31 March 2019 with the market size (revenue) of the bakery products market in Malaysia in 2019 which stood at RM3,930.7 million.

8. EXECUTIVE SUMMARY OF THE STRATEGIC ANALYSIS OF THE BAKERY PRODUCTS MARKET WITH AN OVERVIEW OF THE RESTAURANT AND CAFETERIA/CANTEEN MARKET IN MALAYSIA (*Cont'd*)



2.4 Demand and Supply Conditions

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

2.4.1 Demand Conditions

Changing Food Consumption Trends

The structural change in dietary intake of Malaysians has led to an increase in consumption of bakery products in particularly bread in place of traditional Asian staple foods such as rice and noodles. Bread and rice share similar attributes, whereby both are rich in carbohydrates and protein and are therefore often consumed in hot, humid regions where energy is easily lost through perspiration. However, the preparation of rice meals is time consuming as it often needs to be served with dishes that are prepared separately and might not suit the busy lifestyles of modern families. On the other hand, bread can be prepared relatively quickly into a meal, be it for breakfast or lunch. This is evident in the increasing household expenditure on bread over the years with the mean of monthly household consumption for bread and other cereals increasing over the years. According to the latest Report on Household Expenditure 2016 published by DOSM, the monthly household consumption expenditure on bread and other cereals increased from RM89 in 2014 to RM97 in 2016. In view that there were no major changes in the economic conditions in Malaysia, the statistics dated 2016 was used to forecast the estimated monthly household consumption expenditure in 2019. The monthly household consumption expenditure on bread and other cereals is forecast to reach RM114 in 2019. This demand condition is expected to have a high positive impact throughout the forecast period.

Preference for Conveniently-Packed Food Products

Malaysia's rapid urbanisation over the last few decades has changed the country's lifestyle where more women join the workforce and more people work longer hours. With less time to prepare for a meal, ease of convenience has become an important consideration when choosing the type of products to consume. This has led to increased consumption of conveniently-packed food products such as ready-to-eat meals and packed bakery products. Generally, wholesale bakery products are packaged in forms that are convenient for customers to consume including re-sealable, single-serve and lightweight packages that suit the modern 'grab-and-go' lifestyle. These packaging also serve to extend the shelf life of the food products, thus saving consumers the trouble of purchasing new food products every other day. This demand condition is expected to have a high positive impact throughout the forecast period.

Growing Affluence of Malaysians

The economic growth in Malaysia over the past half-century has resulted in the greater affluence of the population, whereby the gross national disposable income grew from RM502.7 million in 2005 to RM1,376.0 million in 2018. At the same time, the per capita income of Malaysians rose from RM41,128 in 2017 to RM42,627 in 2018 and is projected to reach RM44,275 in 2019. The Malaysian Government is also committed in pursuing economic expansion programmes which would lead to rising disposable incomes. The higher disposable income among Malaysians is likely to lead to greater consumption of food products, including wholesale and retail bakery products. This demand condition is expected to have a low positive impact throughout the forecast period.

Steady Population Growth

The Malaysian population is expected to continue growing at a steady pace, with the population expected to reach 41.5 million in 2040 from 28.6 million in 2010. As the size of the population increases, the potential pool of demand for bakery products is also expected to increase in tandem. In other words, the uptake in bakery products is positively correlated to population growth. Hence, the steady population growth in Malaysia is expected to spur the continued demand for bakery products moving forward. This demand condition is expected to have a low positive impact throughout the forecast period.

8. EXECUTIVE SUMMARY OF THE STRATEGIC ANALYSIS OF THE BAKERY PRODUCTS MARKET WITH AN OVERVIEW OF THE RESTAURANT AND CAFETERIA/CANTEEN MARKET IN MALAYSIA (*Cont'd*)



2.4.2 Supply Conditions

Wide Range of Bakery Products to Cater for Consumers of Various Age and Income Categories

There is a wide range of bakery products in Malaysia to cater for consumers of varying age and income categories. This is because consumers generally are more inclined to choose products in accordance to their affordability. For example, some customers may opt for a standard sandwich bread while more affluent customer will choose higher-priced bread infused with additional ingredients. Bakery product manufacturers are constantly adapting their range of products as driven by the latest local and international trends. The ability of the bakery products market to meet and cope with the ever changing demands of its consumers has supported the growth of the market. This supply condition is expected to have a high positive impact throughout the forecast period.

Increasing Number of Bakery Products Manufacturers

The number of manufacturers of bakery products in Malaysia has been increasing in tandem with the growing popularity of bakery products in the country. As at the end of 2015, based on the latest Economic Census for the Manufacturing Industry 2016 published by DOSM, there were a total of 3,246 establishments involved in the wholesale manufacture of bakery products, up from 2,047 establishments recorded in 2010. The number of establishments is forecast to reach more than 4,300 in 2019. At the same time, the number of retailers of bakery products and sugar confectionery also increased from 2,352 retailers in 2010 to 3,361 retailers in 2015. The number of retailers of bakery products and sugar confectionery is forecast to reach more than 3,800 in 2019. The growing demand for bakery products in Malaysia and nearby country has attracted both new and existing players to participate actively in the market. In view of this, the production capacity and the supply of bakery products in Malaysia are expected to increase accordingly. This supply condition is expected to have a medium positive impact throughout the forecast period.

Better Road Infrastructure Boosting Accessibility of Products

The road infrastructure in Malaysia has improved over the years along with economic growth, with new expressways being built, major roads being opened, as well as existing trunk roads being repaved and widened. This has led to a wider distribution of bakery products to new and broader geographical areas that were not accessible or easily accessible in the past. With better road systems, large manufacturers are able to deliver their products to various locations across the country on a daily basis. The construction of new expressways has also served to greatly reduce the delivery time of bakery products to their destinations. As bakery products often tend to have relatively short shelf lives, the development of better road systems for quicker delivery of products has served to support the supply of bakery products across various locations in Malaysia. This supply condition is expected to have a low positive impact throughout the forecast period.

Advancement of Technology

To increase production capacity to cope with growing demand for bakery products, manufacturers are moving away from individual devices and machines and shift towards integrated systems. With the introduction of more advanced technology, most of the manufacturing processes for the production of bakery products can now be carried out using machinery and equipment rather than manual labour. The introduction of these machinery and equipment can drive production productivity and efficiency, promote better consistency in the quality of products produced and has allowed for the economies of scale for manufacturers of bakery products. For smaller retail bakeries that produce products involving more manual labour, the use of machinery and equipment has also helped to enhance productivity and ensure the quality of the products. Integrated systems also extend to the packaging of bakery products, where the use of conveyor belts, collators and automated packers can greatly improve the packaging process. In addition, the use of websites to promote products in this Internet era has also helped the growth of the bakery products market. Bakeries often also use social media such as Facebook to promote new products or marketing campaigns. This supply condition is expected to have a low positive impact throughout the forecast period.

8. EXECUTIVE SUMMARY OF THE STRATEGIC ANALYSIS OF THE BAKERY PRODUCTS MARKET WITH AN OVERVIEW OF THE RESTAURANT AND CAFETERIA/CANTEEN MARKET IN MALAYSIA (*Cont'd*)



Higher Inflationary Pressure on Raw Material Prices

The prices of some raw materials for bakery products have been increasing in the recent years with the removal of subsidies by the Malaysian Government. The Malaysian Government removed sugar subsidies in 2013, leading to prices increasing from RM2.50 per kilogramme ("kg") in October 2013 to RM2.95 per kg in March 2017. On 1 March 2016, subsidies for the 25 kg bag of wheat flour were removed, resulting in prices increasing from RM33.75 per bag to RM42 per bag. Malaysia also imports a series of fruits and vegetables to fulfil local demand. This includes potatoes and potato products such as potato starch which are important raw materials used in the production of snacks particularly potato chips. While the prices of potatoes and potato products have remained relatively stable over the years, any significant changes in prices are expected to affect the manufacturing of potato chips. The increase or possible increase in prices of key raw materials is expected to adversely impact the cost of production of bakery products. This in turn will likely affect the supply of such products, should demand decrease due to the price increases in bakery products. This supply condition is expected to have a low negative impact throughout the forecast period.

3.0 Prospects and Outlook of the Bakery Products Market

Bakery products have been increasingly popular among Malaysians over the years. The bakery products market in Malaysia stood at RM3,725.8 million in 2018 and is forecast to reach RM3,930.7 million in 2019.

The positive outlook for the bakery products market in Malaysia stems mainly from factors such as changing food consumption trends, preference for conveniently-packed food products, the growing affluence of Malaysians as well as a steady population growth. On the supply side, the market is also expected to be supported by the wide range of bakery products that caters to consumers of various age and income categories, better road infrastructure boosting accessibility of products, an increasing number of bakery products manufacturers as well as advancement in technology. However, investors should be mindful of higher inflationary pressure on raw material prices that may dampen the growth of the bakery products market in Malaysia.

In terms of the market as a whole, Protégé Associates expects the bakery products market in Malaysia to expand at a steady pace. The market is projected to continue growing at a forecast CAGR of 5.9% for the 2019 to 2023 period with market size forecast to reach RM4,967.1 million in 2023.

4.0 Overview of the Restaurant and Cafeteria/ Canteen Market in Malaysia

The restaurant and cafeteria/canteen market is a sub-segment of the food and beverage services industry in Malaysia. SDSG is involved in the restaurant and cafeteria/canteen market via their operations of food and beverage outlets namely bakeries, cafés and bakery-cum-cafés.

At present, the majority of restaurants and cafeterias/canteens serve Asian cuisine, with Chinese, Malay, Indian, Japanese, Korean, Vietnamese and Thai restaurants dominating the local restaurant landscape. Some restaurants and cafeterias/canteens tend to serve various types of cuisine such as Chinese, Malay and Indian (Malaysian cuisine) under one roof. These restaurants and cafeterias/canteens can operate as independent service providers (only having one outlet) or as chain outlets. Similarly, restaurants and cafeterias/canteens serving other types of Asian cuisine can also operate as independent service providers or as chain restaurants. On the other hand, restaurants and cafeterias/canteens serving American, French, German, Italian and Spanish cuisine are the more prominent non-Asian restaurants.

Over the years, there has been an increasing number of restaurants and cafeterias/canteens established throughout Malaysia, driven mainly by a growing eating-out culture as well as younger generations preferring to hangout in these food and beverage services outlets in particularly as cafés rather than stay at home during free times. Based on the latest Economic Census for the Food and Beverage Service Industry 2016 published by DOSM, there were 53,801 establishments involved in restaurant and cafeteria/canteen operations in 2015, up from 13,214 establishments in 2010. As there were no major changes in the business environment and regulations to the restaurant and cafeteria/canteen market in Malaysia, the statistics dated 2015 was used to forecast the estimated number of establishments in 2019. The number of establishments is forecast to reach more than 65,000 in 2019. The restaurant and cafeteria/canteen market stood at a value of RM46.62 billion in 2018, up from RM42.38 billion in the previous year.

8. EXECUTIVE SUMMARY OF THE STRATEGIC ANALYSIS OF THE BAKERY PRODUCTS MARKET WITH AN OVERVIEW OF THE RESTAURANT AND CAFETERIA/CANTEEN MARKET IN MALAYSIA (*Cont'd*)



4.1 Demand and Supply Conditions

4.1.1 Demand Conditions

The Malaysian restaurant and cafeteria/canteen market is expected to continue expanding in the near future, driven by rising disposable income among Malaysians. Malaysia's gross national disposable income has increased to RM1,376.0 million in 2018 from RM1,315.7 million in 2017. Similarly, the per capita income in Malaysia also rose from RM41,128 in 2017 to RM42,627 in 2018. The higher disposable income is expected to lead to increased consumer spending, including on dining expenditure and is expected to bode well for the local restaurant and cafeteria/canteen market.

There has also been a growing trend of Malaysians eating out in the recent years. Several reasons contribute to this trend including the busy lifestyle led by Malaysians that have left them with little time to cook and consume meals at home. In addition, there has been a demographic change where more women are working nowadays. Cooking has traditionally been the duty of women in households and with more women working, couples have turned to dining out for meals. This has increased the demand for food and beverage services establishments such as restaurants and cafeterias/canteens.

4.1.2 Supply Conditions

Along with the rising urban population in Malaysia, there has also been a rise in the number of shopping complexes in the country. With new shopping complexes emerging, new food and beverage services providers find it a good opportunity to penetrate the growing food and beverage services market in Malaysia by opening outlets in these locations. At the same time, chain food and beverage services providers are pressured to open new franchise or outlets in these new locations to avoid losing market share. This condition is expected to continuously add to new food and beverage services establishments such as restaurants and cafeterias/canteens in Malaysia.

On the other hand, food and beverage services providers including restaurants and cafeterias/canteen in Malaysia are dependent to an extent on the availability of foreign workers to ensure the continuity of their operations. This can be partly attributed to jobs requiring lower-skilled workers such as waiters and dishwashers often being held in low esteem by the local younger population. In addition, there is a continuing upward pressure on the cost of employing workers with the implementation of the 'Minimum Wage Policy' that increases the cost of doing business. This condition is expected to negatively impact the growth of the local restaurant and cafeteria/canteen market going forward.

4.2 Prospects and Outlook of the Restaurant and Cafeteria/ Canteen Market

The Malaysian restaurant and cafeteria/canteen market is currently in a period of growth, and is expected to continue on an expansionary path for the next few years. The size of the restaurant and cafeteria/canteen market stood at RM46.62 billion in 2018 and is forecast to reach RM70.42 billion in 2023, representing a CAGR of 8.6% for the 2019 to 2023 period.

The positive outlook for the Malaysian restaurant and cafeteria/canteen market stems mainly from factors such as rising disposable income in Malaysia, growing eating trend among Malaysians as well as more Malaysian women working nowadays. On the supply side, the market is expected to be supported by an increasing number of shopping complexes being constructed in the country. However, market players should be mindful of labour shortage issues in Malaysia that may dampen the growth of the local restaurant and cafeteria/canteen market.

9. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO ALL OTHER RELEVANT INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE MAKING AN APPLICATION FOR OUR IPO SHARES.

9.1 RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS

9.1.1 We are in net current liabilities position and any deterioration in PAT margin may worsen such position. Our net current liabilities position coupled with our gearing ratio, may also impair our ability to expand our business and/ or declare dividends

As at 31 March 2016, 2017, 2018 and 2019, our net current liabilities position stood at RM12.0 million, RM27.2 million, RM21.7 million and RM14.9 million respectively. Historically, we have been financing our capital expenditure (long term asset) through cash generated from operations (short term funds) as a major portion of our sales are transacted based on cash on delivery while our purchases are on credit terms ranging from 30 to 120 days. For FYE 2016 to 2019, our Group's cash sales constituted approximately 65.5%, 63.5%, 68.5% and 70.3% of our total revenue. We have used the cash generated from operations to partially finance our capital expenditure during FYE 2016 to 2019 as well as the acquisition of Daily Bakery in FYE 2017. Moving forward, we may continue to use cash generated from operations to finance our capital expenditure, and as such, may continue to be in a net current liabilities position. Please refer to Section 11.3.1 and 11.7.4 for further details of our working capital and net current liabilities.

Our PAT margin for FYE 2016 to FYE 2019 was 4.1%, 4.5%, 3.4% and 4.2% respectively. As at 31 March 2019, our outstanding borrowings stood at RM49.8 million with a gearing ratio of 1.3 times. Our net current liabilities position coupled with our gearing position, may impair our ability to make future necessary capital expenditures, obtain external borrowings for funding or develop business opportunities, which may adversely affect our ability to expand our business and/or declare dividends. In addition, any deterioration in PAT margin may worsen our net current liabilities position.

9.1.2 We are exposed to borrowings and financial risks

As at 31 March 2019, our outstanding borrowings stood at RM49.8 million comprising mainly term loans, bankers' acceptance and finance lease liabilities. This translates to a gearing of 1.3 times based on our total equity as at 31 March 2019. Assuming our Public Issue and utilisation of proceeds had been completed on 31 March 2019, our pro forma gearing would be reduced to 0.7 times.

We are exposed to fluctuations in interest rates and there can be no assurance that our financial performance would remain favourable in the event of increase in interest rates. In addition, the agreements for credit facilities may contain covenants which may restrict our future operating and financing flexibility and a breach of such covenants may result in the termination and/or enforcement of securities granted for the relevant credit facilities.

9. RISK FACTORS (*Cont'd*)

9.1.3 Our expansion will result in higher operating costs as well as depreciation charges, and we cannot guarantee that our business will grow as planned

During FYE 2016 to 2019, we incurred significant capital expenditure to expand our business, whereby we purchased PPE costing an aggregate of RM59.6 million and acquired Daily Bakery for a net consideration of RM25.8 million. Please refer to Section 6.6.5 for details of our material capital expenditures. We have further allocated RM6.0 million from our IPO proceeds to finance the capital expenditure for our planned expansion to the central and northern regions of Peninsular Malaysia. Please refer to Section 4.9.1 for details of our proposed capital expenditure from the IPO proceeds.

Following our expansion plan, additional operating costs as well as depreciation charges will be incurred. If our Group fails to generate sufficient revenue to cover such additional costs and effectively grow our business, our financial performance and our ability to declare dividends may be adversely affected. Please refer to Section 11.3.1 for further explanation on our working capital.

We acquired Daily Bakery mainly for the purpose of establishing a new manufacturing footprint in Seremban to support the expansion of our wholesale channel outside of Johor. The new manufacturing plant subsequently commenced operations in November 2017. As our new manufacturing plant in Seremban has a relatively short operating history, there is no assurance that we will be successful in meeting new challenges that may be faced in operating the new plant.

9.1.4 We face risk of food contamination

Food contamination is an inherent risk in all F&B operations. There is risk of food contamination due to the numerous manufacturing processes involved in food production.

The food ingredients used in our production include eggs, sauces, fresh seafood, meat and vegetables, which are generally perishable and are vulnerable to contamination if not properly handled, stored or packed. Any contamination in our products may result in it being unsafe for consumption and will have an adverse impact on our reputation and brand name. This may also result in authorities inspecting our premises, leading to monetary fine and/or temporary closure of our operations for cleaning and/or sanitation, any of which may materially and adversely affect us.

The food preparation process involves human intervention and therefore is subject to our employees' awareness of good hygiene and them continuously adhering to our food safety management system. Whilst we stress and educate our employees on our food safety standards, there is no assurance that we will be able to continuously maintain the highest food safety standards and not be exposed to the risks of food contamination in the future.

9.1.5 Our business is dependent on prompt delivery and transportation of our products

We employ a direct store delivery method of distribution where we distribute our products directly to our customers and F&B outlets on a daily basis to ensure freshness of our products.

9. RISK FACTORS (Cont'd)

Delivery disruptions caused by adverse weather conditions and natural disasters could lead to delayed or lost deliveries and may result in interruptions to our business. Our products may not be able to maintain its freshness due to delivery delays, malfunctioning of refrigeration facilities or poor handling during transportation by our logistics department. This may result in our failure to deliver quality products to our customers and F&B outlets, thereby damaging our reputation.

9.1.6 Our business may be affected by changes in consumer preference, disposable income, spending and perception

The bakery and F&B industries are influenced by factors such as consumer preference, consumer disposable income, spending level and consumer perception of our products. Such consumer behaviour may change over time and there is no guarantee that the market will continue to be receptive to our brands and products.

Our continued success will depend partly on our ability to anticipate and develop recipes that appeal to consumers' changing taste and preference and to market them to consumers. However, such development and marketing effort do not ensure that we will be able to continuously adapt to changes in consumers' preference and market perception.

9.1.7 Disruptions in the operations or unplanned shutdowns at our manufacturing plants and F&B outlets could materially and adversely affect our business

As at LPD, we have 2 manufacturing plants in Johor and Seremban as well as 33 F&B outlets all over Johor. Our manufacturing plant in Johor also acts as central kitchen for the preparation of food products which are supplied to our F&B outlets. Our manufacturing plants and F&B outlets may face disruptions or unplanned shutdowns due to reasons such as fire, power failure, floods or interruptions in water supply, which are beyond our control. If any of these events occur, it may cause prolonged disruptions or unplanned shutdowns and damages to our manufacturing plants and F&B outlets, and will materially and adversely affect us.

Although we have taken up insurance policies to provide coverage against the risk of fire and theft and personal accidents for our workers, there is no assurance that our coverage is adequate to compensate for any financial losses arising from fire, theft and accidents. There are also other risks such as natural disasters, riots and general strikes that cannot be reasonably insured against, which may materially and adversely affect our operations.

Our sandwich loaf production line in Seremban is fully automated. Any prolonged breakdown in a component of the production line will disrupt the entire production flow which will materially and adversely affect us.

9. RISK FACTORS (*Cont'd*)

9.1.8 We are dependent on the availability, quality and price fluctuations of raw materials such as food ingredients and packaging materials

Our operations are dependent on consistent supply of food ingredients and packaging materials that meet our quality requirements. Our suppliers may not be able to provide us with consistent food ingredients and packaging materials that meet our quality requirements due to reasons such as shortages or interruptions in supplies. We may also face shipment delay for certain imported raw materials due to bad weather conditions resulting in vessel delay, port congestion resulting in slow movement and handling of containers and delay in customs inspection and clearance. Any prolonged disruption in the supplies of these raw materials and/or raw materials that do not meet our quality requirements will have a negative impact on our business operations.

We also face the risk of fluctuating prices in raw materials. Any significant increase in the prices of our raw materials will have an adverse impact on our profit margins.

9.1.9 Our continued success is dependent on our Executive Directors and key senior management

Our business performance and future prospects depend significantly on the abilities, skills, experience, competency and continuous efforts of our Executive Directors and key senior management. Our co-founders, Tan Kim Seng and Tan Kim Chai, each has over 30 years of experience in the bakery industry and have extensive knowledge and insights of the industry. Since the establishment of our Group, they together with our management have built strong business relationships with our suppliers and customers as well as maintained our Group's reputation.

The loss of any of our Executive Directors could materially and adversely affect us. The loss of any of our key senior management simultaneously or within a short span of time without suitable and timely replacement, or our inability to attract and retain qualified and competent personnel, could also materially and adversely affect us.

9.1.10 Negative publicity could materially and adversely impact our business

We may face customer complaints or receive unfavourable feedback on the quality of our products and service standards of our F&B outlets. If we fail to address such complaints or feedback properly, this could result in negative publicity for our Group.

Any negative publicity, regardless of their validity, concerning the quality of our products, may reduce consumers' confidence in our products as well as reduced patronage to our F&B outlets which if prolonged, can materially and adversely affect us.

9.1.11 Our business may be affected if there is intellectual property infringement against us

Our Group's proprietary brand names such as 'Top Baker', 'Daily's' and 'SDS' differentiate us from our competitors. Failure to protect or safeguard our intellectual property rights, or if any third party misappropriates, dilutes or infringes on our intellectual property, could materially adversely affect the value of our brands and businesses. Further details of our intellectual properties are set out in Section 6.5.

9. RISK FACTORS (*Cont'd*)

Any infringement, counterfeiting or unauthorised third party use or exploitation of our brand names within or outside of Malaysia, could negatively affect us. In addition, we may not be able to detect any unauthorised use of our intellectual property rights.

9.1.12 We may be affected by increase in rental rates or failure to renew our existing leases

As at LPD, 21 out of 33 of our F&B outlets are leased. Any increase in rental rates may reduce our profit margins if we are unable to increase our revenue correspondingly. In addition, upon expiry of existing leases, landlords have the right to review and change the terms and conditions of the lease agreements. We may be adversely affected if we are unable to renew the leases, or if renewed, on less favourable terms.

9.1.13 We may be affected by changes in conditions in places in which our F&B outlets are located

There is no assurance that the buildings in which our F&B outlets are located will continue to operate and will not close down or be demolished. If such event happens, we will need to write off all fixed assets of that particular F&B outlet. There is also the risk that we may not be able to find suitable alternative locations for our F&B outlets which may lead to loss of revenue. Compensation received, if any, may not be sufficient to cover our losses and this may have an adverse effect on us.

As at LPD, 19 out of 33 F&B outlets are located in shopping malls. We may be affected by changes in tenant mix and poor maintenance of the malls, which may lead to reduced patronage to the mall, thereby reducing traffic flow to our F&B outlets.

9.1.14 The conduct of our licensees may harm our reputation and corporate image if we are unable to control their actions

As at LPD, 5 of our F&B outlets are operated by external parties under licensing agreements signed with such parties. We retain significant control over our licensees' products by directly supplying our products to such licensee outlets. If the quality, focus, image or distribution of our products diminish due to poor conduct by our licensees, our reputation and corporate image may be adversely affected.

9.2 RISKS RELATING TO OUR INDUSTRY
9.2.1 We are subject to stringent licencing requirements, relevant food regulations and hygiene standards

We are subject to the laws and regulations governing the F&B industry, including but not limited to those relating to food safety, handling and storage, hygiene standards, wholesaler licences, food and eating premises licence, certificate of registration of food premises and Certificate of Authentication Halal for our products. We are required to obtain and maintain a number of licences and permits from the relevant authorities to operate our business. For details of our major licences, permits and registrations please refer to Appendix I.

9. RISK FACTORS (*Cont'd*)

The manufacturing licenses of SDS Food, SDS Top Baker and Daily Bakery stipulate that each company must by year 2020, fulfil the conditions that (i) its capital investment per employee must not be less than RM140,000.00; and (ii) its full time employment must consist of at least 80% Malaysian citizens. As at LPD, SDS Food and SDS Top Baker have not complied with such conditions. If SDS Food and SDS Top Baker are unable to comply with such condition by year 2020, its manufacturing licenses may be suspended or revoked and this will negatively affect our business operations.

In addition, if we are unable to comply with all regulations or conditions of our other licenses and permits, such licenses and permits may be suspended or revoked and this will negatively affect our business operations. There is also no assurance that the introduction of new laws or any changes to these legislations or other future regulatory developments will not have a material adverse effect on our business.

9.2.2 We are dependent on foreign workers in our manufacturing plants

Our business operations, especially at the manufacturing plants, are dependent on the continued supply of foreign labour. As at LPD, we employ 352 foreign workers, representing 27.9% of our total employees. These foreign workers are sourced from Bangladesh, Nepal, Myanmar, Cambodia and Indonesia.

Our business is therefore subject to labour and immigration laws that govern the employment of foreign workers. Any substantial shortage in the supply of foreign workers or restrictions on foreign workers usage may disrupt our operations.

At this juncture, we obtain work permits for our foreign workers, which may be renewed on a yearly basis up to 10 years. Any adverse changes to the policies on employment of foreign workers between Malaysia and the above-mentioned countries or any significant increase in labour wages, may adversely affect us.

9.2.3 The industries in which we participate in are highly competitive, and our business could be materially and adversely affected if we do not compete effectively

We operate in the bakery and restaurant and cafeterias/ canteen market which are highly competitive. Over the years, there have been an increasing number of restaurants and cafeterias/ canteens established throughout Malaysia. Based on the IMR, the number of establishment involved in restaurant and cafeterias/ canteen operations is forecast to reach more than 65,000 in 2019.

Our competitors are diverse, and they include large bakery manufacturers, individual bakery, home-based bakery, fast-food chain, restaurants and cafés. Some of our competitors may have longer operating history, more F&B outlets, larger customer base as well as greater financial and marketing resources. In addition, numerous brands and products compete for shelf space, with competition based primarily on product quality, brand recognition and loyalty, price, product promotion, customer service, and the ability to identify and satisfy consumers' changing taste and preference.

Our business may also be adversely affected if our competitors are successful in imitating our product recipes, retail concepts and are able to provide such products at competitive prices.

9. RISK FACTORS (*Cont'd*)

9.2.4 We may be affected by the outbreak of food related diseases

Some of our products contain fillings made from meat and seafood. Any outbreak of diseases and viruses in meat or seafood from the region and around the world may have a material and adverse impact on our business, as it may affect the general public consumption of these products. Any such outbreak may also materially and adversely affect the sources of supply for that particular food product. Efforts to source for alternatives may take time and may be costly.

9.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES

9.3.1 There has been no prior market for our Shares

Prior to our Listing, there was no public trading for our Shares. The listing of our Shares on the ACE Market does not guarantee that an active market for our Shares will develop.

There is also no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the ACE Market.

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

Our Listing may be aborted or delayed should any of the following occurs:

- (a) Our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligations therein; and
- (b) We are unable to meet the public shareholding spread requirement set by Bursa Securities, whereby at least 25.0% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

If any of these events occur, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of the Application within 14 days, failing which the provisions of Section 243(2) of the CMA will apply.

If our Listing is aborted and/or terminated, and our Shares have been allotted to the investors, a return of monies to the investors could only be achieved by way of cancellation of share capital as provided under Section 117 of the Act and its related rules.

Such cancellation requires the approval of shareholders by special resolution in a general meeting, with notice to be sent to the Director General of the Inland Revenue Board and the Registrar designated under Section 20A(1) of the Companies Commission of Malaysia Act 2001 within 7 days of the date of the special resolution and us meeting the solvency requirements under Section 117(3) of the Act.

There can be no assurance that such monies can be recovered within a short period of time or at all in such circumstances.

9. RISK FACTORS (*Cont'd*)

9.3.3 The trading price and volume of our Shares following our Listing may be volatile

The trading price and volume of our Shares may fluctuate due to various factors, some of which are not within our control and may be unrelated or disproportionate to our financial results. These factors may include variations in the results of our operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

The performance of Bursa Securities is also affected by external factors such as the performance of the regional and world bourses, inflow or outflow of foreign funds, economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of our Shares.

9.3.4 Our ability to pay dividends is largely dependent on the performance of our subsidiaries

As an investment holding company, our Company derives its income mainly from dividends received from our subsidiaries. As such, our ability to pay future dividends is largely dependent on the performance of our subsidiaries. In determining the size of any dividend recommendation, we will also take into consideration a number of factors, including but not limited to our financial performance, cash flow requirements, debt servicing and financing commitments, availability of distributable reserves, future expansion plans, loan covenants and compliance with regulatory requirements.

9.4 OTHER RISKS**9.4.1 Our Promoters will be able to exert significant influence over our Company**

Our Promoters will collectively hold 74.6% of our enlarged share capital upon Listing. Because of the size of their shareholdings, our Promoters will have significant influence on the outcome of certain matters requiring the vote of shareholders unless they are required to abstain from voting by law and/or as required by the relevant authorities.

9.4.2 Forward-looking/ prospective statements in this Prospectus may not be achievable

Certain statements or expectations or forecasts in this Prospectus are based on historical data which may not be reflective of our future results. Forward-looking statements in this Prospectus are based on assumptions and subject to uncertainties and contingencies.

There can be no assurance that such prospective statements or expectations or forecasts will materialise and actual results may be deviate significantly. Such deviation may have a material and adverse effect on us.

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

10.1 RELATED PARTY TRANSACTIONS AND OTHER TRANSACTIONS

10.1.1.1 Related party transactions

Save as disclosed below, for FYE 2016 to 2019, there were no transactions, existing and/or potential, entered or to be entered into by our Group which involve the interests, direct or indirect, of our Promoters, Directors, substantial shareholders, key senior management and/or persons connected with them which are significant in relation to the business of our Group, as defined under the Listing Requirements:

[illegible]

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Transacting parties	Company within our Group	Interested persons	Nature of relationship	Nature of transaction	Value of transactions (Expense)/ Income							
					FYE 2016		FYE 2017		FYE 2018		FYE 2019	
					RM'000	% (1b)(5)	RM'000	% (1b)(5)	RM'000	% (1b)(5)	RM'000	%
KS Tan Properties Sdn Bhd	<ul style="list-style-type: none"> SDS Food SDS B&C 	Tan Kim Seng	Tan Kim Seng is our Promoter, Managing Director and substantial shareholder.	<ul style="list-style-type: none"> Purchase of promotional goods such as bird's nest by SDS Food from KS Tan Properties Sdn Bhd 	(7)	(1b)(5)	(2)	(1b)(5)	(2)	(1b)(5)	-	-
					(31)	N/A	(34)	N/A	(34)	N/A	10	N/A
			He is also director and substantial shareholder (holding 50% equity interest) of KS Tan Properties Sdn Bhd.	<ul style="list-style-type: none"> Rental of premises paid/ payable by SDS Food to KS Tan Properties Sdn Bhd 								
				<ul style="list-style-type: none"> Rental of premises received/ receivable by SDS B&C from KS Tan Properties Sdn Bhd⁽⁶⁾ 	6	N/A	6	N/A	6	N/A	2	N/A

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Transacting parties	Company within our Group	Interested persons	Nature of relationship	Nature of transaction	Value of transactions (Expense)/ Income									
					FYE 2016		FYE 2017		FYE 2018		FYE 2019		Up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
SDS Tan Properties	<ul style="list-style-type: none">• SDS Top Baker• SDS B&C	<ul style="list-style-type: none">• Tan Kim Seng• Tan Kim Chai• Teou Chau Hoyk	<p>The interested persons are our Promoters.</p> <p>Tan Kim Seng and Tan Kim Chai are our Managing Director and Executive Director respectively.</p> <p>They are also Directors and substantial shareholders of SDS Tan Properties.</p>	Rental of premises paid/ payable by SDS B&C and SDS Top Baker to SDS Tan Properties	-	-	(228)	N/A	(258)	N/A	(285)	N/A	(93)	N/A
City Cafeteria ⁽³⁾	City Cake	Tan Yong Thye	<p>Tan Yong Thye is our Promoter and substantial shareholder.</p> <p>He was also an inactive partner of City Cafeteria.</p>	<ul style="list-style-type: none">• Purchase by City Cake of business assets such as furniture, fittings and equipment used in the F&B outlet from City Cafeteria• Reimbursement of rental deposit by City	(175)	N/A	-	-	-	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Transacting parties	Company within our Group	Interested persons	Nature of relationship	Nature of transaction	Value of transactions (Expense)/ Income					
					FYE 2016		FYE 2017		FYE 2018	
					RM'000	%	RM'000	%	RM'000	%
Sin Lee Hiang Cake House (please refer to Section 10.2.1 for further details)	Super Arrow	<ul style="list-style-type: none"> Tan Kim Chai Tan Kee Jin Tan Yong Thye 	<p>The interested persons are our Promoters.</p> <p>Tan Kim Chai and Tan Kee Jin are also our Executive Directors.</p> <p>Tan Kim Chai and Tan Yong Thye are our substantial shareholders.</p> <p>The interested persons are also partners of Sin Lee Hiang Cake House.</p>	<p>Cake to City Cafeteria</p> <p>• Sale of bakery products by Super Arrow to Sin Lee Hiang Cake House</p> <p>• Promotion support provided by Super Arrow to Sin Lee Hiang Cake House</p>	2,837	(1a)3.0	3,113	(1a)2.2	2,262	(1a)1.3
									2,248	(1a)1.2
					22	(5)-	91	(5)-	23	(5)-
Regina Cake House (please refer to Section 10.2.1 for further details)	Super Arrow	<ul style="list-style-type: none"> Tan Kim Chai Tan Kee Jin Tan Yong Thye 	<p>The interested persons are our Promoters.</p> <p>Tan Kim Chai and Tan Kee Jin are also our Executive Directors.</p>	<p>Sale of bakery products by Super Arrow to Regina Cake House</p>	4,945	(1a)5.3	5,715	(1a)4.1	4,628	(1a)2.7
									4,380	(1a)2.3
									-	-

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Transacting parties	Company within our Group	Interested persons	Nature of relationship	Nature of transaction	Value of transactions (Expense)/ Income					
					FYE 2016		FYE 2017		FYE 2018	
					RM'000	%	RM'000	%	RM'000	%
										Up to LPD RM'000 %
			Tan Kim Chai and Tan Yong Thye are our substantial shareholders.							
			The interested persons are also partners of Regina Cake House.							
Tan Kee Jin	Super Arrow	Tan Kee Jin	Tan Kee Jin is our Promoter and Executive Director.	Payment by Super Arrow on behalf of director's expenses	(43)	N/A	-	-	-	-
Pua Geok Hong	SDS Baker	Pua Geok Hong	Pua Geok Hong is spouse of Tan Kim Seng who is our Promoter, Managing Director and substantial shareholder.	Rental of premises paid/ payable by SDS Top Baker to Pua Geok Hong ⁽⁴⁾	(6)	N/A	(9)	N/A	(5)	N/A
Tan Kim Seng	SDS Baker	Tan Kim Seng	Tan Kim Seng is our Promoter, Managing Director and substantial shareholder.	Rental of premises paid/ payable by SDS Top Baker to Tan Kim Seng ⁽⁴⁾	(8)	N/A	(10)	N/A	(5)	N/A

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Transacting parties	Company within our Group	Interested persons	Nature of relationship	Nature of transaction	Value of transactions (Expense)/ Income					
					FYE 2016		FYE 2017		FYE 2018	
					RM'000	%	RM'000	%	RM'000	%
Tan Yon Haw	SDS Top Baker	Tan Yon Haw	Tan Yon Haw is our Promoter, Executive Director and substantial shareholder.	Rental of premises paid/ payable by SDS Top Baker to Tan Yon Haw	(10)	N/A	-	-	-	-
• Tan Kim Seng	SDS Food	• Tan Kim Seng	The interested persons are our Promoters.	Disposal by SDS Food of its entire equity interest in SDS Tan Properties to the interested persons	1,700	N/A	-	-	-	-
• Tan Kim Chai		• Tan Kim Chai								
• Teou Chau Hoyk		• Teou Chau Hoyk								
• Tan Yon Haw		• Tan Yon Haw								
• Tan Yon Thye		• Tan Yon Thye								
• Tan Yon Ping		• Tan Yon Ping								
• Tan Yon Herng		• Tan Yon Herng								
			Tan Kim Chai and Tan Yon Haw are our Executive Directors.							
			Tan Kim Seng, Tan Kim Chai, Tan Yon Haw and Tan Yon Thye are also our substantial shareholders.							

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Transacting parties	Company within our Group	Interested persons	Nature of relationship	Nature of transaction	Value of transactions (Expense)/ Income					
					FYE 2016		FYE 2017		FYE 2018	
					RM'000	%	RM'000	%	RM'000	%
• Tan Kim Seng	SDS Food	• Tan Kim Seng	The interested persons are our Promoters.	Acquisition by SDS Food of the entire equity interest of SDS B&C from the interested persons	(1,700)	N/A	-	-	-	-
• Tan Kim Chai		• Tan Kim Chai								
• Teou Chau Hoyk		• Teou Chau Hoyk	Tan Kim Seng and Tan Kim Chai are our Managing Director and Executive Director respectively. They are also our substantial shareholders.							

Notes:

N/A Not applicable

^(1a) Calculated based on our Group's revenue for each of the respective financial years.^(1b) Calculated based on our Group's cost of sales for each of the respective financial years.⁽²⁾ Tan Kim Chai, Tan Kee Jin and Tan Yon Haw collectively owned 50.0% equity interest in PT Top Baker Indonesia. On 22 November 2017, they disposed of their entire equity interest in PT Top Baker Indonesia to a non-related party for a consideration of approximately USD500,000 and concurrently Tan Kim Chai resigned as Director of PT Top Baker Indonesia. The disposal was carried out in order for our Promoters to fully concentrate on our business in Malaysia and Singapore.⁽³⁾ City Cafeteria has been de-registered from Register of Business on 8 July 2015.⁽⁴⁾ Subsequent to FYE 2018, the rental arrangement has ceased.

10.	RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST
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- | | |
|-----|---|
| (5) | Represent less than 0.1%. |
| (6) | Relates to the rental of the first floor of a shophouse owned by SDS B&C. |

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10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Save for the one-off payment made by Super Arrow on behalf of a director, which has been fully settled in FYE 2017, our Directors are of the view that the above related party transactions were conducted on an arm's length basis and on competitive commercial terms not more favourable to the related parties and were not to the detriment of our minority shareholders.

Moving forward, in order to ensure related party transactions (if any) are undertaken on arm's length basis and on normal commercial terms, we have established the following procedures:

(a) Recurrent related party transactions

- (i) At least 2 other contemporaneous transactions with third parties for similar products and/or quantities will be used as comparison, wherever possible, to determine whether the price and terms offered by all related parties are fair and reasonable and comparable to those offered by third parties; or
- (ii) In the event that quotation or comparative pricing from third parties cannot be obtained, the transaction price will be determined by our Group based on those offered by third parties for substantially similar type of transaction to ensure that the recurrent related party transactions are not detrimental to us.

Our Board shall seek mandate from shareholders to enter into any recurrent related party transactions at general meetings of our Company. Due to its time-sensitive nature, the shareholders' mandate will enable us to enter into such recurrent transactions which are transacted in our ordinary course of business without having to convene numerous general meetings to approve such recurrent transactions as and when they are entered into.

(b) Other related party transactions

- (i) Whether the terms of the related party transaction are fair and on arm's length basis to our Group and would apply on the same basis if the transaction did not involve a related party;
- (ii) The rationale for the Group to enter into the related party transaction and the nature of alternative transactions, if any; and
- (iii) Whether the related party transaction would present a conflict of interest between our Group and the related parties, taking into account the size of the transaction and nature of the related parties' interest in the transaction.

Where required under the Listing Requirements, a related party transaction may require prior approval of shareholders at a general meeting to be convened. An independent adviser may be appointed to comment as to whether the related party transaction is fair and reasonable so far as the shareholders are concerned; and whether the transaction is to the detriment of minority shareholders. In such instances, the independent adviser shall also advise minority shareholders on whether they should vote in favour of the transaction.

For related party transaction that requires prior approval of shareholders, the Directors, major shareholders and/or persons connected to them, which have any interest, direct or indirect, in the proposed related party transaction will abstain from voting in respect of their direct and/or indirect shareholdings. Where a person connected with a Director or major shareholder has interest, direct or indirect, in any proposed related party transaction, the Director or major shareholder concerned will also abstain from voting in respect of his direct and/or indirect shareholdings.

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Audit Committee will, amongst others, supervise and monitor any related party transaction and the terms thereof and report to our Board for further action. Where necessary, our Board would make appropriate disclosures in our annual report with regards to any related party transaction entered into by us.

10.1.2 Other transactions**(a) Transactions that are unusual in their nature or conditions**

There were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party during FYE 2016 to 2019.

(b) Outstanding loans (including guarantees of any kind)

The following related party balances were included in our receivables and payables as at the end of FYE 2016 to 2019:

	<u>FYE 2016</u>	<u>FYE 2017</u>	<u>FYE 2018</u>	<u>FYE 2019</u>
	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>	<u>RM'000</u>
Receivables				
• Trade receivables from Regina Cake House and Sin Lee Hiang Cake House ⁽¹⁾	650	549	859	885
• Amount due/trade receivable from PT Top Baker Indonesia ⁽²⁾	831	572	-	-
• Amount due from Directors ⁽⁴⁾	122	-	-	-
• Amount due from shareholders ⁽⁵⁾	453	-	-	-
Payables				
• Amount to SDS Tan Properties ⁽⁶⁾	22	-	-	-
• Amount due to Directors ⁽⁷⁾	453	10	1	-

Notes:

- (1) This amount relates to sale of bakery products to Regina Cake House and Sin Lee Hiang Cake House which are partnerships owned by certain Promoters. The amount outstanding as at the end of financial years under review was within the normal credit period granted of 30 to 60 days. Subsequent to FYE 2019, such amount has been settled in full.
- (2) This amount represents unsecured interest-free advance to PT Top Baker Indonesia, which has been settled in full.
- (3) This amount relates to sale of food paste to PT Top Baker Indonesia. The amount outstanding as at the end of FYE 2017 was within the normal credit period granted of 30 to 60 days. Such amount has been settled in full.
- (4) This amount represents unsecured payments made by us on behalf of the Directors, which has been settled in full.

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)

- (5) This amount represents the balance sale proceeds receivable arising from the disposal of our shares in SDS Tan Properties to certain shareholders of our Group. This amount has been settled in full.
- (6) This amount represents unsecured payments made on our behalf by SDS Tan Properties, which has been settled in full.
- (7) This amount represents unsecured payments made on our behalf by our Directors, which has been settled in full.

Guarantees

- (a) Certain of our Promoters, Tan Kim Seng, Tan Kim Chai, Tan Yon Haw and Teou Chau Hoyk, had extended guarantees for banking facilities extended to our Group as at 31 March 2019. We have applied and received a conditional approval from the respective banks to discharge the said guarantees subject to completion of our Listing and corporate guarantee to be provided by SDSG.
- (b) SDS Tan Properties, our Promoter, had provided third party securities in the form of land and buildings for banking facilities extended to our Group as at 31 March 2019.
- (c) Certain of our Promoters, Tan Kim Seng, Teou Chau Hoyk, Tan Yon Haw, Tan Yong Thye, Tan Yong Ping and Tan Yong Herng, and Ng Yong Lai, a third party business associate of our Promoters, jointly own a piece of land. The said land has been pledged for banking facilities extended to our Group as at 31 March 2019.

The third party securities in (b) and (c) above are extended to Hong Leong Islamic Bank Berhad for banking facilities granted to our Group. We will redeem the third party securities with our IPO proceeds allocated for repayment of bank borrowings. Please refer to Section 4.9.1(b)(i) for further details. Upon full payment of the redemption sum to Hong Leong Islamic Bank Berhad, these third party securities will be discharged.

Save as disclosed above, there were no outstanding loans (including guarantees of any kind) made to/by us to or for the benefit of any related party.

(c) Transactions entered into with M&A Securities

Save as disclosed below, we have not entered into any transactions with M&A Securities who is the Adviser, Sponsor, Underwriter and Placement Agent for our Listing:

- (a) Agreement dated 24 March 2017 between SDS Food and M&A Securities for the appointment of M&A Securities as Adviser, Sponsor and Placement Agent for our Listing; and
- (b) Underwriting agreement dated 18 July 2019 entered into between our Company and M&A Securities for the underwriting of 43,423,200 IPO Shares.

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)**10.2 CONFLICT OF INTEREST****10.2.1 Interest in similar business and in businesses of our clients and our suppliers**

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

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

Prior to the LPD and up till May 2019, Tan Kim Chai, Tan Kee Jin and Tan Yong Thye who are our Promoters, were also involved in the following businesses which were carrying on similar or related trade as our Group and were also our customers:

Interested persons	Company	Principal activities	Position held	% of invested capital	
				Direct	Indirect
Tan Kim Chai	Regina	Distribution of bakery products in Singapore (now dormant)	Partner	34.0	-
Tan Kee Jin	Cake House		Partner	33.0	-
Tan Yong Thye			Partner	33.0	-
Tan Kim Chai	Sin Lee	Distribution of bakery products in Singapore (now dormant)	Partner	34.0	-
Tan Kee Jin	Hiang Cake		Partner	33.0	-
Tan Yong Thye	House		Partner	33.0	-

Regina Cake House and Sin Lee Hiang Cake House are partnerships incorporated in Singapore. Since 2003 until 2019, our bakery products are sold via our wholly-owned subsidiary in Singapore i.e. Super Arrow, to Regina Cake House and Sin Lee Hiang Cake House for onward distribution in Singapore on an exclusive basis. Super Arrow's role is limited to importing bakery products on a wholesale basis and selling it to various distributors in Singapore. Regina Cake House and Sin Lee Hiang Cake House did not distribute any other products other than those produced by our Group, both products of our own brands as well as products produced under OEM arrangement for its Singapore-based customers. Regina Cake House and Sin Lee Hiang Cake House were also not involved in other businesses save for distribution of bakery products in Singapore. Regina Cake House and Sin Lee Hiang Cake House have ceased operations in March 2019 and May 2019 respectively and will subsequently be wound up. Their distribution activities have been assumed by a third party distributor, JC Food Supplies Pte Ltd, under a new distributor appointment by Super Arrow. The appointment of JC Food Supplies Pte Ltd is not exclusive and Super Arrow reserves the right to amend, cancel or terminate the appointment upon 30 days written notice without any liability. Other than JC Food Supplies Pte Ltd, we also have one other distributor in Singapore, A.M. Deli Enterprise Pte Ltd.

As such, our Board did not include Regina Cake House and Sin Lee Hiang Cake House as part of our Listing Group after taking into consideration that we do not intend to enter into direct distribution to hypermarkets, supermarkets or other retailers within Singapore as it would require separate licenses and logistical support in Singapore. As we plan to focus in expanding our local geographical footprints into the central and northern region of Peninsular Malaysia, we do not want to be involved in managing the day-to-day operations, dealings and coordination with the end customers in Singapore. Please refer to Section 7.17.1 for further details on our future plans.

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (Cont'd)

For FYE 2016 to 2019, our total sales to Regina Cake House and Sin Lee Hiang Cake House represent less than 10.0% of our Group's revenue. Separately, none of our Directors or substantial shareholders is involved in the day-to-day operations of Regina Cake House and Sin Lee Hiang Cake House.

Our Directors are of the view that the above related party transactions were conducted on an arm's length basis and on competitive commercial terms not more favourable to the related parties and were not to the detriment of our minority shareholders. Based on the above, our Board has formed the opinion that the above persons' involvement in Regina Cake House and Sin Lee Hiang Cake House do not give rise to any conflict of interest situation with our Group.

Moving forward, our Audit Committee will supervise any conflict of interest or potential conflict of interest situations and our Directors or substantial shareholders will disclose such conflict of interest situations, if any, to our Nominating Committee for resolution as and when they arise.

In order to mitigate any possible conflict of interest situation, our Directors will declare to our Nominating Committee and our Board their interests in other companies at the onset and as and when there are changes in their respective interests in companies outside our Group. Further details on steps that our Nominating Committee will take if such Director's involvement give rise to a potential conflict of interest with our Group's business, are set out in Section 5.2.3.

10.2.2 Promotion of material assets

Save as disclosed below, none of our Directors or substantial shareholders had any interest, direct or indirect, in the promotion of or in any material assets which had been, within the FYE 2016 to 2019, acquired or proposed to be acquired by; or disposed of or proposed to be disposed of by; or leased or proposed to be leased to us.

- (a) On 18 March 2016, SDS Food disposed of its entire equity interest in SDS Tan Properties to certain of our Promoters, namely Tan Kim Seng, Tan Kim Chai, Teou Chau Hoyk, Tan Yon Haw, Tan Yong Thye, Tan Yong Ping and Tan Yong Heng for a total cash consideration of RM1.7 million. The disposal consideration of RM1.7 million was derived at taking into consideration the expected NA of SDS Tan Properties as at 31 March 2016 of RM1.3 million.
- (b) On 18 March 2016, SDS Food acquired the entire equity interest of SDS B&C from certain of our Promoters, namely Tan Kim Seng, Tan Kim Chai and Teou Chau Hoyk for a total cash consideration of RM1.7 million. The purchase consideration of RM1.7 million was derived at taking into consideration the expected NA of SDS B&C as at 31 March 2016 of RM2.1 million.

The disposal of SDS Tan Properties (a property investment company) and acquisition of SDS B&C (an operator of F&B outlets) were undertaken as part of SDS Food's internal restructuring to streamline its business operation to focus on the core business of manufacturing and distributing of bakery products as well as operating F&B outlets.

10.2.3 Declarations of conflict of interest by our advisers

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

10. RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST (*Cont'd*)

- (b) Messrs Lee & Tengku Azrina has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Solicitors for our Listing;
- (c) Messrs Crowe Malaysia PLT has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Auditors and Reporting Accountants for our Listing; and
- (d) Protégé has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the IMR for our Listing.

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11. FINANCIAL INFORMATION**11.1 HISTORICAL FINANCIAL INFORMATION**

Our Company was incorporated on 1 August 2017 to facilitate the Listing. Our audited combined financial statements throughout FYE 2016 to 2019 have been prepared in accordance with MFRS and IFRS.

The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results and cash flows.

11.1.1 Combined statements of profit or loss and other comprehensive income

The following table sets out a summary of the audited combined statements of profit or loss and other comprehensive income of our Group for FYE 2016 to 2019 which was extracted from the Accountants' Report in Section 12. It should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Section 11.2 and Accountants' Report in Section 12.

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
CONTINUING OPERATIONS				
Revenue	93,982	139,333	174,201	187,129
Cost of sales	(63,910)	(96,825)	(121,431)	(130,029)
GP	30,072	42,508	52,770	57,100
Other income	922	2,939	1,438	2,404
Administrative expenses	(8,124)	(11,076)	(13,435)	(13,283)
Selling and distribution expenses	(15,765)	(24,593)	(30,686)	(33,213)
Other operating expenses	(891)	(1)	(354)	(534)
Profit from operations	6,214	9,777	9,733	12,474
Finance costs	(1,509)	(1,812)	(3,100)	(3,172)
PBT from continuing operations	4,705	7,965	6,633	9,302
Tax	(831)	(1,646)	(743)	(1,448)
PAT from continuing operations	3,874	6,319	5,890	7,854
DISCONTINUED OPERATION				
LAT from discontinued operation ⁽¹⁾	(484)	-	-	-
PAT	3,390	6,319	5,890	7,854
PAT from continuing operations attributable to:				
• Owners of the Company	3,850	6,151	5,739	7,695
• Non-controlling interests	24	168	151	159
PAT from continuing operations	3,874	6,319	5,890	7,854
LAT from discontinued operation attributable to the owners of the Company	(484)	-	-	-
PAT	3,390	6,319	5,890	7,854
EBIT ^{(2) (3)}	6,212	9,773	9,722	12,473
EBITDA ^{(2) (3)}	11,918	16,926	19,069	23,605
GP margin (%) ⁽²⁾	32.0	30.5	30.3	30.5
PBT margin (%) ⁽²⁾	5.0	5.7	3.8	5.0
PAT margin (%) ⁽²⁾	4.1	4.5	3.4	4.2

11. FINANCIAL INFORMATION (Cont'd)

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Effective tax rate (%) ⁽²⁾	17.7	20.7	11.2	15.6
EPS (sen) ⁽⁴⁾				
- continuing operations	1.3	2.0	1.9	2.6
- discontinued operation	(0.2)	-	-	-
Diluted EPS (sen) ⁽⁵⁾				
- continuing operations	0.9	1.5	1.4	1.9
- discontinued operation	(0.1)	-	-	-

Notes:

- (1) Discontinued operation from the disposal of SDS Tan Properties. Please refer to Section 11.2.1(j)(i) for further details.
- (2) Based on continuing operations.
- (3) EBIT and EBITDA are calculated as follows:

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
PAT	3,874	6,319	5,890	7,854
Less:				
Interest income	(2)	(4)	(11)	(1)
Add:				
Finance costs	1,509	1,812	3,100	3,172
Tax	831	1,646	743	1,448
EBIT	6,212	9,773	9,722	12,473
Add:				
Depreciation and amortisation	5,706	7,153	9,347	11,132
EBITDA	11,918	16,926	19,069	23,605

- (4) Calculated based on PAT from continuing operations attributable to owners of the Company divided by the share capital of 301,527,100 Shares before IPO.
- (5) Calculated based on PAT from continuing operations attributable to owners of the Company divided by the enlarged share capital of 405,823,900 Shares after IPO.

11. FINANCIAL INFORMATION (Cont'd)**11.1.2 Combined statements of financial position**

The following table sets out our audited combined statements of financial position for FYE 2016 to 2019, which was extracted from the Accountants' Report in Section 12. It should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Section 11.2 and Accountants' Report in Section 12.

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
ASSETS				
Non-current assets				
PPE	47,376	95,459	97,596	95,527
Goodwill	162	162	162	162
Deferred tax assets	22	25	524	1,127
Total non-current assets	47,560	95,646	98,282	96,816
Current assets				
Inventories	3,462	5,056	4,656	5,203
Trade receivables	4,871	7,792	8,968	9,277
Other receivables, deposits and prepayments	4,954	6,770	9,455	5,826
Amount owing by directors	122	-	-	-
Amount owing by shareholders	453	-	-	-
Current tax assets	788	1,166	1,396	998
Fixed deposits with a licensed bank	-	140	82	22
Cash and bank balances	2,055	2,675	5,107	6,164
	16,705	23,599	29,664	27,490
Assets classified as held for sale	-	-	2,929	-
Total current assets	16,705	23,599	32,593	27,490
TOTAL ASSETS	64,265	119,245	130,875	124,306
EQUITY AND LIABILITIES				
Share capital	2,750	2,750	2,750	2,750
Foreign exchange translation reserve	310	506	415	454
Retained profits	17,562	21,960	27,399	35,018
Equity attributable to owners of the Company	20,622	25,216	30,564	38,222
Non-controlling interests	108	276	427	512
Total equity / NA	20,730	25,492	30,991	38,734
Non-current liabilities				
Long-term borrowings	13,790	33,610	42,808	40,521
Other payables	-	7,098	694	502
Deferred tax liabilities	990	2,155	2,062	2,112
Contract liability	71	74	45	87
Total non-current liabilities	14,851	42,937	45,609	43,222

11. FINANCIAL INFORMATION (Cont'd)

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Current liabilities				
Trade payables	13,312	21,866	24,871	25,389
Other payables and accruals	3,171	11,836	13,346	7,411
Amount owing to directors	453	10	1	-
Short-term borrowings	10,944	14,847	15,550	8,792
Bank overdrafts	733	2,164	473	458
Contract liability	21	29	29	49
Current tax liabilities	50	64	5	251
Total current liabilities	28,684	50,816	54,275	42,350
TOTAL LIABILITIES	43,535	93,753	99,884	85,572
TOTAL EQUITY AND LIABILITIES	64,265	119,245	130,875	124,306

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11. FINANCIAL INFORMATION (Cont'd)**11.1.3 Combined statements of cash flows**

The following table sets out the audited combined statements of cash flows for FYE 2016 to 2019, which was extracted from the Accountants' Report in Section 12. It should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Section 11.2 and Accountants' Report in Section 12.

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
Profit/(Loss) before tax				
- continuing operations	4,705	7,965	6,633	9,302
- discontinued operation	(563)	-	-	-
	4,142	7,965	6,633	9,302
Adjustments for:				
Allowance for impairment losses on trade receivables	-	-	136	121
Bad debts written off	4	-	-	(2)
Depreciation of PPE				
- continuing operations	5,706	7,153	9,347	11,132
- discontinued operation	33	-	-	-
Impairment loss on PPE				
- continuing operations	-	-	-	273
- discontinued operation	360	-	-	-
Interest expenses				
- continuing operations	1,509	1,812	3,100	3,172
- discontinued operation	59	-	-	-
Inventories written off	-	-	59	-
Loss/(Gain) on disposal of marketable securities				
- continuing operations	53	-	-	-
- discontinued operation	(51)	-	-	-
Net loss/(gain) on disposal of PPE	184	(664)	(1,016)	(128)
PPE written off	389	-	31	-
Bad debts recovered	(6)	(3)	-	-
Dividend income from marketable securities	(14)	-	-	-
Gain on bargain purchase	-	(829)	-	-
Gain on disposal of a subsidiary	(354)	-	-	-
Gain on disposal of asset classified as held for sale	-	-	-	(1,972)
Net loss/(gain) on foreign exchange - unrealised	52	(19)	(25)	(12)
Interest income	(2)	(4)	(11)	(1)
Imputed interest income	-	(590)	-	-
Reversal of loss on remeasurement to fair value less cost of disposal of PPE	(249)	-	-	-
Operating profit before working capital changes	11,815	14,821	18,254	21,887
Changes in working capital:				
Inventories	(101)	(1,594)	341	(547)
Receivables	(2,302)	(3,863)	583	(1,640)
Payables	5,413	12,442	2,241	1,501
Amount owing by directors	(84)	122	-	-

11. FINANCIAL INFORMATION (Cont'd)

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Amount owing to directors	688	(443)	(9)	(1)
Contract liability	92	11	(29)	62
Cash generated from operations	15,521	21,496	21,381	21,262
Income tax paid	(1,026)	(1,760)	(1,847)	(1,949)
Income tax refunded ⁽³⁾	144	177	224	592
Net operating cash flows	14,639	19,913	19,758	19,905
Cash flows for investing activities				
Acquisition of a subsidiary, net of cash and cash equivalents acquired	-	(13,330)	-	-
(Advances to)/Repayment from a related party	(831)	831	-	-
Disposal of a subsidiary, net of cash and cash equivalents disposed of	1,808	-	-	-
Dividend received from marketable securities	14	-	-	-
Interest received	2	4	11	1
Investment in marketable securities	(1,435)	-	-	-
Proceeds from disposal of marketable securities	871	-	-	-
Proceeds from disposal of assets classified as held for sale	-	-	-	4,900
Proceeds from disposal of PPE				
- current financial year	500	845	1,211	223
- previous financial year	-	-	-	4,579
Proceeds from shareholders for disposal of subsidiary in previous year	-	453	-	-
Purchase of PPE				
- continuing operations	(2,505)	(8,539)	(7,376)	(5,700)
- discontinued operation	(1,352)	-	-	-
Decrease/(Increase) in pledged fixed deposits with a licensed bank	45	(80)	(2)	82
Net investing cash flows	(2,883)	(19,816)	(6,156)	4,085
Cash flows for financing activities				
Dividend paid	(1,315)	(1,753)	(300)	(150)
Interest paid	(1,568)	(1,880)	(3,368)	(3,172)
Drawdown of bankers' acceptance	15,839	19,454	21,602	14,443
Drawdown of term loans	-	7,267	7,670	3,600
Proceeds from issuance of ordinary shares	-	-	(1)	-
Repayment of bankers' acceptance	(16,545)	(17,209)	(21,154)	(21,324)
Repayment of hire purchase obligations	(5,095)	(5,538)	(7,057)	(6,066)
Repayment of loan from other payables	-	-	(5,009)	(7,108)
Repayment of term loans	(1,217)	(1,405)	(1,857)	(3,168)
Net financing cash flows	(9,901)	(1,064)	(9,473)	(22,945)

11. FINANCIAL INFORMATION (Cont'd)

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Net change in cash and cash equivalents	1,855	(967)	4,129	1,045
Effect of foreign exchange translation	127	216	(66)	49
Cash and cash equivalents at the beginning of the financial year	(660)	1,322	571	4,634
Cash and cash equivalents at the end of the financial year	1,322	571	4,634	5,728

Notes:

- (1) Represents RM10 only.
- (2) Represents RM332 only.
- (3) Income tax refunded arising from over payment of tax for the prior financial years.

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11. FINANCIAL INFORMATION (Cont'd)

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

The following discussion and segmental analysis of our financial condition and results for FYE 2016 to 2019 should be read in conjunction with the Accountants' Report in Section 12. The discussion and analysis contain data derived from our audited combined financial statements.

11.2.1 Overview of our operations
(a) Principal activities

Our Group is principally engaged in the manufacturing and distributing of bakery products as well as operating F&B outlets. Our products are sold via the wholesale and retail channels.

We produce varieties of breads, buns, rolls and cakes which are distributed to the wholesale channels such as mini markets, convenience stores, sundry shops, supermarkets and hypermarkets. All our products under this channel are sold under our brand name of 'Top Baker' and 'Daily's'.

We also produce varieties of bakery, confectionery and other F&B products which are sold through our retail channels. As at LPD, we have a total of 33 F&B outlets (including 5 outlets under licensing arrangement), all of which are located in Johor. All our products under this channel are sold under our brand name of 'SDS'.

Please refer to Section 7 for our Group's detailed business overview. Please refer to Section 9 for the risk factors that may affect our revenue and financial performance.

(b) Revenue

Our Group's revenue are from sale of products and fees from the licensing of our F&B outlets. For the financial years under review, our revenue was mainly derived from the sale of our products. It is recognised when significant risk and rewards of ownership of the products have been transferred to the buyer and where our Group does not have continuing managerial involvement and effective control over the products sold. Revenue is measured at fair value of the consideration and where applicable, net of returns, goods and services tax (if applicable), cash and trade discounts.

(c) Cost of sales

Our cost of sales mainly comprises raw material costs, direct labour, factory overheads and retail overheads, details are as follows:

(i) Raw materials

Our Group's raw materials are mainly food ingredients such as flour, sugar, edible oil, eggs, cheese, meats, seafood, spices, seasonings and sauces. These raw materials are mostly available in Malaysia and are sourced from our pool of suppliers.

11. FINANCIAL INFORMATION (Cont'd)**(ii) Direct labour costs**

Direct labour costs are mainly salaries and wages of our workers who are directly involved in the production of our products or directly attributable to our F&B outlets.

(iii) Factory overheads

Factory overheads consist mainly of utility expenses, depreciation of PPE in relation to our manufacturing plants and upkeep and maintenance of factories.

(iv) Retail overheads

Retail overheads consist mainly of rental expenses of F&B outlets, utility expenses, depreciation of PPE in relation to our F&B outlets and upkeep and maintenance of F&B outlets.

(d) Other income

Other income includes primarily rental income, gain on foreign exchange and gain on disposal of PPE.

(e) Operating expenses

Our operating expenses can be segregated into administrative expenses, selling and distribution expenses and other operating expenses.

Administrative expenses are costs incurred to maintain our business operations. More than 70.0% of our administrative expenses for FYE 2016 to 2019 were attributable to staff costs, directors' remuneration and depreciation of PPE.

Selling and distribution expenses are costs related to the marketing and distribution of our products. Almost 80.0% of our selling and distribution expenses for FYE 2016 to 2019 were attributable to staff costs, sales commission, transportation costs and depreciation of PPE.

Other operating expenses relate to expenses incurred which are not directly related to our operations such as PPE written off, loss on disposal of PPE, loss on foreign exchange and allowance for impairment loss on trade receivables.

(f) Finance costs

Our finance costs comprise mainly interest expense on borrowings.

(g) Recent developments

There were no significant events subsequent to our Group's audited combined financial statements for FYE 2019.

(h) Exceptional and extraordinary items and audit qualifications

There were no exceptional or extraordinary items during FYE 2016 to 2019. In addition, our audited financial statements for the 4 financial years under review were not subject to any audit qualifications.

11. FINANCIAL INFORMATION (Cont'd)**(i) Significant factors affecting our business**

Section 9 details a number of risk factors relating to our business and the industry in which we operate in. Some of these risk factors have an impact on our Group's revenue and financial performance. The main factors which affect revenues and profits include but are not limited to the following:

(i) Changes in consumers' preferences

Our Group's continued growth and success depend, in part on the popularity of our products. Any change in consumers' preferences away from our products could materially affect our business. As such, we have to continuously develop recipes that appeal to consumers' changing tastes and preferences. If we are not able to adapt to the changes in consumers' preferences, our business will be adversely affected.

(ii) Fluctuations in prices of food ingredients

We use various food ingredients in our operations and the prices of such ingredients may be subject to price fluctuations due to various factors beyond our control. Any significant increase in the prices of food ingredients could impact our profit margins and financial results if we are unable to pass on such increase to the consumers.

(iii) Risk of food contamination

There is always the possibility of food contamination in the preparation and production of our products. Any contamination in our products may result in it being unsafe for consumption and will have an adverse impact on our reputation, brand name and business performance.

(iv) Competition

We operate in a highly competitive industry. Our competitors include bakery manufacturers, individual bakery, home-based bakery, fast food chains, restaurant and cafés. We compete by providing good quality food, ambiance, competitive pricing, good customer services and accessible locations with good facilities. There can be no assurance that we will be able to compete with our existing competitors and new competitors whilst maintaining our profitability in the future.

(j) Others**(i) Disposal of SDS Tan Properties**

In FYE 2016, SDS Food disposed of the entire equity interest in SDS Tan Properties (then known as SDS Bakery & Confectionery Sdn Bhd) for a disposal consideration of RM1.7 million. As a result of this disposal, SDS Tan Properties was captured as discontinued operation in our combined statements of profit or loss and other comprehensive income for FYE 2016. The discontinued operation relates to property investment holding activities undertaken by SDS Tan Properties.

For FYE 2016, the discontinued operation generated revenue of RM0.03 million from rental income and incurred a net loss of RM0.5 million. The loss was mainly due to impairment loss on PPE of RM0.4 million.

11. FINANCIAL INFORMATION (Cont'd)**(ii) Acquisition of Daily Bakery**

In FYE 2017, SDS Food acquired the entire equity interest in Daily Bakery for a purchase consideration of RM31.6 million⁽²⁾, settled in the following manner:

- (aa) Initial cash payment of RM10.6 million;
- (bb) Second payment of RM6.0 million to be set-off by the drawdown of loan by Daily Bakery of RM6.0 million after the execution of the share sale agreement dated 15 February 2016⁽¹⁾;
- (cc) Cash instalment payment of RM10.0 million over 24 months commencing from 20 October 2016; and
- (dd) Cash payment of RM5.0 million upon disposal of 2 identified factories owned by Daily Bakery in Johor Bahru.

Notes:

- (1) Pursuant to the terms of the share sale agreement, the second payment of RM6 million will be reduced by the drawdown of loan for working capital of RM6.0 million. However, the drawdown of loan by Daily Bakery took place prior to the date of the share sale agreement and Daily Bakery has started servicing the loan since then. As a result of such, the total loan assumed by SDS Food as at the date of the share sale agreement was RM5.8 million and the balance RM0.2 million was settled by SDS Food in cash.
- (2) Given that the mode of settlement of the purchase consideration involved an assumption of a RM5.8 million loan by SDS Food, the effective purchase consideration to be paid to Daily Bakery vendors is RM25.8 million.

The acquisition of Daily Bakery was completed on 1 May 2016 and the last cash instalment in relation to item (cc) above was to be paid by SDS Food on or before 30 September 2018 and was paid on 19 September 2018. SDS Food recorded a gain on bargain purchase of RM0.8 million due to the difference between the cash purchase consideration for the acquisition of Daily Bakery and the net identifiable assets of Daily Bakery as at the completion date.

As at 31 March 2017, a total of RM12.5 million of the cash payment under items (cc) and (dd) remained outstanding. Given the deferred nature of this cash payment, SDS Food recognised an imputed interest income of RM0.6 million in FYE 2017 from the discounting of other payable to its present value at the financial year end. Part of this imputed interest income was subsequently amortised as finance cost in FYE 2018.

11. FINANCIAL INFORMATION (Cont'd)

The 2 identified factories in item (dd) were disposed of at RM4.8 million on a deemed completion date of 30 March 2018. Based on the terms of the agreement with the vendors of Daily Bakery, SDS Food was entitled to a discount of RM0.2 million (being the difference between the cash payment of RM5.0 million and the sales proceeds of the 2 factories of RM4.8 million). Correspondingly, the discount of RM0.2 million, being considered as early settlement discount, was also set-off against the imputed interest income in FYE 2018. Despite the deemed completion of the factory disposal, proceeds from the disposal were only received by Daily Bakery and remitted to the vendors of Daily Bakery after FYE 2018.

As at 31 March 2018, a total of RM6.96 million of the cash payment under items (cc) and (dd) remained outstanding, with a balance imputed interest income of RM0.03 million. The balance imputed interest income will only be fully amortised in FYE 2019 upon full payment to the vendors of Daily Bakery.

As at the date of this Prospectus, all amounts outstanding to the vendors of Daily Bakery have been fully settled.

(k) Accounting standards

We will be required to adopt MFRS 16, Leases in FYE 2020. The adoption of MFRS 16 is expected to increase our total asset by RM13.2 million, increase our total liabilities by RM13.4 million and decrease our retained profits by RM0.2 million. Arising from this, our net current liabilities position is also expected to increase by RM3.7 million. Please refer to note 4.2 in Section 12 for further details.

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11. FINANCIAL INFORMATION (Cont'd)**11.2.2 Review of operations****(a) Revenue**

The revenue segmentation of our Group by divisions and by geographical locations and year-on-year commentary are detailed below.

Analysis of revenue by channels

	Combined Group							
	Audited							
	FYE 2016		FYE 2017		FYE 2018		FYE 2019	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Wholesale								
• Sandwich loaf	16,925	18.0	32,089	23.0	34,988	20.1	35,301	18.9
• Buns including flavoured buns and plain burger/ sausage buns	13,377	14.2	18,078	13.0	21,919	12.6	23,534	12.6
• Filled buns and cream rolls	14,811	15.8	24,185	17.4	33,989	19.5	35,402	18.9
• Muffin, cupcakes and sliced cakes	13,965	14.9	16,930	12.2	16,347	9.4	17,275	9.2
• Others ⁽¹⁾	8,967	9.5	12,466	8.9	13,843	7.9	14,561	7.8
	68,045	72.4	103,748	74.5	121,086	69.5	126,073	67.4
Retail								
• Bakery and confectionery products	36,631	39.0	44,753	32.1	50,599	29.0	50,617	27.1
• Other F&B products	5,999	6.3	11,683	8.4	18,426	10.6	22,540	12.0
• Fees from the licensing of our F&B outlets	38	0.1	152	0.1	164	0.1	170	0.1
	42,668	45.4	56,588	40.6	69,189	39.7	73,327	39.2
	110,713	⁽³⁾ 117.8	160,336	⁽³⁾ 115.1	190,275	⁽³⁾ 109.2	199,400	⁽³⁾ 106.6
Less: Inter-segment adjustment ⁽²⁾	(16,731)	(17.8)	(21,003)	(15.1)	(16,074)	(9.2)	(12,271)	(6.6)
	93,982	100.0	139,333	100.0	174,201	100.0	187,129	100.0

Notes:

- (1) Includes pocket sandwiches, dorayaki, doughnuts, jams and other products.
- (2) Relates to combination adjustment for elimination of inter-company transactions within our Group. The adjustments include sales and purchases between the wholesale and retail channels mainly food pastes, fillings and bakery products. The increase in inter-segment sales in FYE 2017 was because the retail channel (SDS Food) had supported the production of certain wholesale channel's products (Daily Bakery) during the transitional period when we were integrating the manufacturing processes of Daily Bakery with SDS Top Baker. Subsequent to FYE 2017, the inter-segment sales decreased as wholesale channel (Daily Bakery and SDS Top Baker) reduced purchases from retail channel (SDS Food) with the commencement of operations of our Seremban manufacturing plant.
- (3) Inter-segment sales as a percentage of the total gross revenue of our wholesale and retail channels have declined during the financial years under review:

11. FINANCIAL INFORMATION (Cont'd)

	FYE 2016	FYE 2017	FYE 2018	FYE 2019
Inter-segment sales (RM'000)	16,731	21,003	16,074	12,271
Gross revenue of wholesale and retail channel (RM'000)	110,713	160,336	190,275	199,400
As a percentage of revenue	15.1%	13.1%	8.4%	6.2%

Correspondingly, the revenue of our wholesale and retail channels as a percentage to our total Group revenue (net of inter-segment adjustment) has also decreased over the financial years under review.

Our revenue for FYE 2016 to FYE 2019 was mainly contributed by our wholesale channel.

Comparison between FYE 2017 and FYE 2016***Wholesale channel***

Revenue from wholesale channel increased by RM35.7 million (or 52.5%) to RM103.7 million in FYE 2017 (FYE 2016: RM68.0 million). The increase was mainly due to the acquisition of Daily Bakery which post acquisition revenue (net of inter-segment adjustments) of RM23.0 million was included in FYE 2017 and not in FYE 2016. The remaining increase was due to addition of wholesale customers in Klang Valley arising from the set-up of 2 new depots in Shah Alam and Taman Taming Jaya. In terms of products, the increase in revenue was mainly due to increase in sales of sandwich loaf by RM15.2 million (or 89.6%) and filled buns and cream rolls by RM9.4 million (or 63.3%). Daily Bakery's focus was on these products prior to the acquisition by our Group.

Retail channel

Revenue from F&B outlets increased by RM13.9 million (or 32.6%) to RM56.6 million in FYE 2017 (FYE 2016: RM42.7 million). The increase was mainly due to various strategies to rebrand our bakeries and cafés such as the revamp of our menus and launch of membership programme. In addition, we also opened 3 new F&B outlets (1 bakery in Larkin Sentral bus terminal, 1 bakery-cum-café in AEON Tebrau City and 1 café in AEON Bukit Indah) in FYE 2017 which contributed to the increase in revenue. The number of our F&B outlets increased from 22 to 25 outlets in FYE 2017. In terms of products, our bakery and confectionery products increased by RM8.1 million (or 22.2%) and other F&B products increased by RM5.7 million (or 94.7%). This was consistent with our rebranding strategies and opening of new F&B outlets which boosted our retail revenue.

Comparison between FYE 2018 and FYE 2017***Wholesale channel***

Revenue from wholesale channel increased by RM17.3 million (or 16.7%) to RM121.1 million in FYE 2018 (FYE 2017: RM103.7 million). The increase was mainly due to the addition of wholesale customers. As a result of the increased production capacity from Daily Bakery's new manufacturing plant in Seremban coupled with increase in sales personnel and delivery vehicles, we were able to expand our wholesale customers in Klang Valley, Bidor, Kuantan and Kota Bharu. The new manufacturing plant in Seremban has a fully automated sandwich loaf production line which increased our sandwich loaf production capacity by 3 times from 1,000 sandwich loaf per hour to 3,000 sandwich loaf per hour. Daily Bakery's revenue contribution (net of inter-segment adjustments) to our Group amounted to RM32.4 million for FYE 2018.

11. FINANCIAL INFORMATION (Cont'd)

In terms of products, the increase in revenue was mainly due to increase in sales of filled buns and cream rolls by RM9.8 million (or 40.5%) and buns by RM3.8 million (or 21.2%). Although we did not launch any new products within these categories during the financial year, we rolled-out a modified version of the filled buns and cream rolls under Daily's brand in terms of product texture and taste. We also updated the packaging design of these products.

Retail channel

Revenue from retail channel increased by RM12.6 million (or 22.3%) to RM69.2 million in FYE 2018 (FYE 2017: RM56.6 million). The increase was mainly due to the follow-through effect of our rebranding strategies which were carried out in FYE 2017. In addition, we also opened 2 new F&B outlets (2 bakery-cum-café in Paradigm Mall and AEON Bandar Dato' Onn) in FYE 2018 which contributed to the increase in revenue. The number of our F&B outlets increased from 25 to 27 outlets in FYE 2018. In terms of products, the increase was mainly driven by our other F&B products, which increased by RM6.7 million (or 57.7%) as our F&B outlets continued to attract more patrons following our rebranding strategies in the prior year.

Comparison between FYE 2018 and FYE 2019***Wholesale channel***

Revenue from wholesale channel increased by RM5.0 million (or 4.1%) to RM126.1 million in FYE 2019 (FYE 2018: RM121.1 million). The increase was mainly due to the addition of wholesale customers in Northern and Southern region. During the year, we focused on expanding our wholesale customer base within the Northern and Southern region.

In terms of products, the increase in revenue was mainly due to increase in sales of buns by RM1.6 million (or 7.4%) as well as filled buns and cream rolls by RM1.4 million (or 4.2%). The increase in sales of these products was a result of a follow-through effect from our product modification effort in the prior year, where we rolled-out modified versions of the filled buns and cream rolls under Daily's brand in terms of product texture and taste. We also updated the packaging design of these products in FYE 2018.

Retail channel

Revenue from retail channel increased by RM4.1 million (or 5.9%) to RM73.3 million in FYE 2019 (FYE 2018: RM69.2 million). The increase was mainly due to the opening of 3 new F&B outlets (2 bakery-cum-café in Desaru and Taman Pelangi and 1 café in Plaza Pelangi) in FYE 2019. In terms of products, the increase was mainly driven by our other F&B products, which increased by RM4.1 million (or 22.3%) as our F&B outlets continued to attract more patrons with different marketing programmes such as "Long Loaf Challenge" and "Kids Eat Free" programmes organised during the year.

11. FINANCIAL INFORMATION (Cont'd)**Analysis of revenue by geographical location**

Geographical locations	Combined Group							
	Audited							
	FYE 2016		FYE 2017		FYE 2018		FYE 2019	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia								
• Northern region ⁽¹⁾	-	-	-	-	2,979	1.7	6,209	3.3
• Central region ⁽²⁾	18,309	19.5	22,350	16.1	27,946	16.0	29,625	15.8
• East Coast region ⁽³⁾	12,529	13.3	22,042	15.8	29,183	16.8	30,169	16.2
• Southern region ⁽⁴⁾	47,947	51.0	75,819	54.4	96,059	55.1	105,000	56.1
	78,785	83.8	120,211	86.3	156,167	89.6	171,003	91.4
Singapore	13,396	14.3	15,625	11.2	14,444	8.3	13,359	7.1
Others ⁽⁵⁾	1,801	1.9	3,497	2.5	3,590	2.1	2,767	1.5
	93,982	100.0	139,333	100.0	174,201	100.0	187,129	100.0

Notes:

- (1) Comprises Perak only.
- (2) Comprises Selangor and Negeri Sembilan.
- (3) Comprises Pahang, Terengganu and Kelantan.
- (4) Comprises Johor and Melaka.
- (5) Comprises Indonesia, China, Thailand and Australia. We sold food paste, yeast, shortening and packaging materials to Indonesia (in FYE 2016 to FYE 2019); cupcakes to China (in FYE 2016 to FYE 2017) and Thailand (in FYE 2016 to FYE 2018); and egg rolls to Australia (in FYE 2016 to FYE 2017).

For FYE 2016 to 2019, we generated between 83.8% and 91.4% of our revenue in Malaysia with the remaining mainly derived from Singapore.

In Malaysia, the southern region contributed to more than 50.0% of our revenue for all 4 financial years as all our F&B outlets are located in Johor. As such, revenue from the southern region was from both our wholesale and retail channels. Revenue from the central region and east coast region were derived from our wholesale channel and has been increasing steadily over the past 4 financial years as we continue to expand our wholesale business. In FYE 2018, we expanded our wholesale business to the northern region having increased our production capacity from our new manufacturing plant in Seremban. However, as at LPD, we have yet to expand our retail channel business beyond Johor.

11. FINANCIAL INFORMATION (Cont'd)**(b) Cost of sales, GP and GP margin****Analysis of cost of sales by channels**

		Combined Group							
		Audited							
		FYE 2016		FYE 2017		FYE 2018		FYE 2019	
		RM'000	%	RM'000	%	RM'000	%	RM'000	%
Wholesale:									
• Raw materials									
(i) Food ingredients									
- Flour		8,685	13.6	14,809	15.3	17,271	14.2	18,441	14.2
- Sugar, dairy products, edible oil, eggs, additives and yeast		9,016	14.1	14,600	15.1	18,017	14.8	19,189	14.8
- Other food ingredients ⁽¹⁾									
▪ Frozen food		26	(4)_	21	(4)_	21	(4)_	22	-
▪ Fruit and vegetable		377	0.6	488	0.5	589	0.5	454	0.3
▪ Jam (chocolate and chocolate peanut)		2,029	3.2	2,327	2.4	2,682	2.2	2,799	2.2
▪ Others ⁽¹⁾		15,843	24.8	20,885	21.5	22,638	18.6	21,966	16.9
(ii) Packaging materials		3,336	5.2	5,679	5.9	6,247	5.1	6,006	4.6
		39,312	61.5	58,809	60.7	67,465	55.6	68,877	53.0
• Direct labour		2,622	4.1	5,462	5.6	5,596	4.6	6,171	4.8
• Overheads ⁽²⁾		4,827	7.6	7,679	7.9	9,562	7.9	10,854	8.3
		46,761	73.2	71,950	74.2	82,623	68.1	85,902	66.1
Retail:									
• Raw materials									
(i) Food ingredients									
- Flour		972	1.5	1,260	1.3	1,236	1.0	1,174	0.9
- Sugar, dairy products, edible oil, eggs, additives and yeast		9,928	15.5	14,164	14.6	15,215	12.5	14,304	11.0
- Other food ingredients ⁽¹⁾									
▪ Frozen food		1,960	3.1	3,361	3.5	4,527	3.7	4,952	3.8
▪ Fruit and vegetable		1,054	1.6	1,474	1.6	1,995	1.7	2,590	2.0
▪ Others ⁽¹⁾		6,603	10.3	9,386	9.7	12,776	10.5	9,899	7.6
(ii) Packaging materials		2,908	4.6	2,551	2.6	3,238	2.7	4,085	3.1
(iii) Other raw materials ⁽³⁾		325	0.5	312	0.3	377	0.3	633	0.5
		23,750	37.1	32,508	33.6	39,364	32.4	37,637	28.9
• Direct labour		4,902	7.7	6,574	6.8	8,311	6.8	10,251	7.9
• Overheads ⁽²⁾		5,218	8.2	6,306	6.5	7,093	5.8	8,509	6.5
		33,870	53.0	45,388	46.9	54,768	45.0	56,397	43.3
Less: Inter-segment adjustment ⁽⁵⁾		(16,721)	(26.2)	(20,513)	(21.1)	(15,960)	(13.1)	(12,270)	(9.4)
		63,910	100.0	96,825	100.0	121,431	100.0	130,029	100.0

Notes:

- (1) Includes many other food ingredients such as coffee and cocoa powder, filling, flavouring, syrups and spices, each representing not more than 1.5% of our cost of sales for the respective financial years.

11. FINANCIAL INFORMATION (Cont'd)

- (2) Includes rental expenses of hostels for workers (wholesale channel) and our F&B outlets (retail channel).
- (3) Other raw materials for the retail channel include mainly cake decorations.
- (4) Less than 0.1%.
- (5) Relates to combination adjustment for elimination of inter-company transactions within our Group. The adjustments include sales and purchases between the wholesale and retail channels are mainly food pastes, fillings and bakery products.

Analysis of GP and GP margin by channels

		Combined Group							
		Audited							
		FYE 2016		FYE 2017		FYE 2018		FYE 2019	
		GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin
		RM'000	%	RM'000	%	RM'000	%	RM'000	%
Wholesale		21,284	31.3	31,798	30.6	38,463	31.8	40,171	31.9
Retail		8,798	20.6	11,200	19.8	14,421	20.8	16,930	23.1
		30,082		42,998		52,884		57,101	
Less: Inter-segment adjustment ⁽¹⁾		(10)		(490)		(114)		(1)	
		30,072	32.0	42,508	30.5	52,770	30.3	57,100	30.5

Note:

- (1) Relates to combination adjustment for elimination of inter-company transactions within our Group. The adjustments include sales and purchases between the wholesale and retail channels mainly food pastes, fillings and bakery products.

Comparison between FYE 2016 and FYE 2017***Wholesale channel***

Cost of sales from wholesale channel increased by RM25.2 million (or 53.9%) to RM72.0 million in FYE 2017 (FYE 2016: RM46.8 million). The increase in cost of sales was mainly driven by the increase in raw materials. The main component of our raw materials is food ingredients used to produce our bakery products which includes, amongst others, flour, sugar, dairy products, edible oil and eggs. The costs of raw materials increased by RM19.5 million (or 49.6%) mainly due to increase in flour by RM6.1 million, sugar by RM1.6 million, edible oil by RM1.2 million, eggs by RM0.6 million, additives by RM1.7 million and packaging materials by RM2.3 million, to support the increase in our production volume. The increase in direct labour and overheads was mainly due to post acquisition of Daily Bakery, which corresponding's cost was not included in FYE 2016.

Our GP from this channel also increased by RM10.5 million or 49.4% in FYE 2017. Our GP margin reduced slightly from 31.3% for FYE 2016 to 30.6% for FYE 2017 mainly due to manufacturing downtime arising from the integration of Daily Bakery with SDS Top Baker. During the transitional period, we reviewed and reconfigured both companies' manufacturing processes to complement each other's production output.

11. FINANCIAL INFORMATION (Cont'd)***Retail channel***

Cost of sales from retail channel increased by RM11.5 million (34.0%) to RM45.4 million in FYE 2017 (FYE 2016: RM33.9 million). The increase in cost of sales was mainly due to higher cost of raw materials, which increased by RM8.8 million (or 36.9%). The cost of raw materials increased more than the increase in revenue. This was because during FYE 2017, we launched our membership programme whereby members were entitled to store discount and other promotions such as "one-for-one", set meals and product bundling at our F&B outlets. Such store discount and cost of promotions were absorbed by us.

Due to the higher cost of sales, our GP from this channel increased by only RM2.4 million or 27.3% in FYE 2017, despite the 32.6% increase in revenue. Correspondingly, our GP margin decreased slightly to 19.8% (FYE 2016: 20.6%).

Comparison between FYE 2017 and FYE 2018

The GP margin for wholesale channel increased from 30.6% to 31.8% for FYE 2018. The GP margin for retail channel also increased from 19.8% to 20.8% for FYE 2018. However, the overall GP margin for our Group decreased slightly from 30.5% to 30.3% for FYE 2018. This was mainly because the GP for the retail channel increased at a higher rate of 28.8% as compared to the GP for the wholesale channel which increased by 21.0%. As the GP margin for the retail channel is lower than the wholesale channel, this led to the slight decrease of our overall GP margin.

Wholesale channel

Cost of sales from wholesale channel increased by RM10.7 million (or 14.8%) to RM82.6 million in FYE 2018 (FYE 2017: RM72.0 million). This was in line with the 16.7% increase in revenue in the same period. The increase in cost of sales was mainly driven by the increase in raw materials. The cost of raw materials increased by RM8.7 million (or 14.7%) mainly attributable to increase in flour by RM2.5 million, sugar by RM0.5 million, edible oil by RM0.8 million, additives by RM1.0 million, yeast by RM0.6 million and packaging materials by RM0.6 million, to support the increase in production volume. The increase in overheads by RM1.9 million (or 24.5%) was mainly due to higher depreciation charges for additional plant machinery and equipment purchased in FYE 2018.

Our GP margin from this channel also increased slightly to 31.8% (FYE 2017: 30.6%) as we completed the integration process of Daily Bakery with SDS Top Baker and also due to economies of scale from Daily Bakery's new manufacturing plant in Seremban. Despite this, our GP margin increased slightly only due to additional depreciation for the new machineries at the Seremban plant during FYE 2018. The new manufacturing plant which commenced operations in November 2017 has a fully automated sandwich loaf production line which led to lower cost of sales given the more efficient usage of raw materials which ultimately reduces wastages.

Retail channel

Revenue from this channel increased by 22.3% during FYE 2018 whilst the cost of sales only increased by 20.7% to RM54.8 million (FYE 2017: RM 45.4 million). The higher revenue growth was due to the follow-through effect from the rebranding strategies in FYE 2017 as well as higher patronage to our F&B outlets located in various shopping malls in Johor Bahru. The membership programme launched in FYE 2017 had gained traction which also led to higher patronage to our F&B outlets.

As such, we recorded higher slightly GP margin of 20.8% (FYE 2017: 19.8%).

11. FINANCIAL INFORMATION (Cont'd)**Comparison between FYE 2018 and FYE 2019**

The GP margin for wholesale channel remained consistent at 31.9% (FYE 2018: 31.8%) for FYE 2019. The GP margin for retail channel increased from 20.8% to 23.1% for FYE 2019, which led to the increase in the overall GP margin from 30.3% to 30.5% in FYE 2019.

Wholesale channel

Cost of sales from wholesale channel increased by RM3.3 million (or 4.0%) to RM85.9 million in FYE 2019 (FYE 2018: RM82.6 million). This was in line with the 4.1% increase in revenue in the same period. The increase in cost of sales was mainly driven by the increase in raw materials. The cost of raw materials increased by RM1.4 million (or 2.1%) mainly attributable to increase in flour, sugar, dairy products, edible oil, eggs, additives and yeast and partially offset by the decrease in other food ingredients and packaging materials. The increase in overheads by RM1.3 million (or 13.5%) was mainly due to increase in depreciation for PPE taking into account the full year effect of depreciation for PPE purchased in FYE 2018 for our Seremban manufacturing plant, which commenced operation in November 2017.

Our GP margin from this channel was consistent with FYE 2018, maintaining at 31.9% (FYE 2018: 31.8%). This is due consistent growth for both the revenue and cost of sales in FYE 2019.

Retail channel

Revenue from this channel increased by 5.9% during FYE 2019 whilst the cost of sales only increased by 3.0% to RM56.4 million (FYE 2018: RM54.8 million). The cost of sales did not increase in line with the increase in revenue mainly due to the decrease in cost of raw materials. SDS Food had in previous years sold raw materials (ingredients to make food paste) to one of our customer in Indonesia, which typically has a low GP margin therefore diluting our overall GP margin in the previous years. Such sale of raw materials reduced in FYE 2019 which resulted in a corresponding decrease in our cost of raw materials. Consequently, this resulted in the increase in our GP margin to 23.1% (FYE 2018: 20.8%). The decrease in cost of raw materials is also partly due to the reduction in inter-segment sales from retail channel (SDS Food) to wholesale channel (Daily Bakery).

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11. FINANCIAL INFORMATION (Cont'd)**(c) Other income**

The breakdown of our other income for FYE 2016 to 2019 is as follows:

	Combined Group							
	Audited							
	FYE 2016		FYE 2017		FYE 2018		FYE 2019	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bad debts recovered	6	0.7	3	0.1	-	-	-	-
Fixed deposit interest income	2	0.2	4	0.1	11	0.8	1	(3)-
Dividend income from marketable securities	14	1.5	-	-	-	-	-	-
Gain on bargain purchase	-	-	829	28.2	-	-	-	-
Gain on disposal of a subsidiary	354	38.4	-	-	-	-	-	-
Gain on disposal of assets classified as held for sale	-	-	-	-	-	-	1,972	82.0
Gain on disposal of PPE	1	0.1	664	22.6	1,016	70.7	152	6.3
Gain on foreign exchange								
• Realised	142	15.4	642	21.8	162	11.2	1	(3)-
• Unrealised	-	-	19	0.7	27	1.9	12	0.5
Imputed interest income on other payable	-	-	590	20.1	-	-	-	-
Rental income	135	14.6	87	3.0	78	5.4	62	2.6
Reversal of loss on re-measurement to fair value less cost of disposal of PPE	249	27.0	-	-	-	-	-	-
Others	19	2.1	(1)101	3.4	(2)144	10.0	(4)204	8.6
	922	100.0	2,939	100.0	1,438	100.0	2,404	100.0

Notes:

- (1) Mainly relates to a one-off motor accident insurance claim for a delivery vehicle (approximately RM30,000) and sales of merchandise to our licensees.
- (2) Mainly relates to sales of merchandise to our licensees and rebate from SME Corporation Malaysia under the shariah-compliant SME financing scheme for our Islamic term loan.
- (3) Less than 0.1%.
- (4) Mainly relates to sales of merchandise to our licensees and scrap sales.

Comparison between FYE 2016 and FYE 2017

Other income increased by RM2.0 million (or 218.8%) to RM2.9 million in FYE 2017 (FYE 2016: RM0.9 million). Such increase was mainly arising from the acquisition of Daily Bakery, details as set out in Section 11.2.1(j)(ii):

- One-off gain on bargain purchase of RM0.8 million recognised in FYE 2017; and
- One-off imputed interest income on other payable of RM0.6 million recognised in FYE 2017 due to the discounting of other payable to its present value at the financial year end.

11. FINANCIAL INFORMATION (Cont'd)

We also recorded gain of RM0.7 million from the disposal of PPE (mainly Daily Bakery's motor vehicles and plant, machinery and factory equipment which are fully depreciated or no longer in use); and realised gain on foreign exchange of RM0.6 million mainly from sales to / purchases from overseas customers /suppliers, as well as purchase of additional plant, machinery and factory equipment for our new manufacturing plant in Seremban. Such increase was partially offset by a one-off gain on disposal of SDS Tan Properties of RM0.4 million recognised in FYE 2016.

Comparison between FYE 2017 and FYE 2018

Other income for FYE 2018 mainly relates to gain on disposal of Daily Bakery's factories in Johor Bahru (mainly consists of land and buildings, which were no longer in use). The decrease in other income by RM1.5 million (or 51.1%) in FYE 2018 (FYE 2017: RM2.9 million) was largely due to the one-off income recognised in FYE 2017 from the acquisition of Daily Bakery which did not recur in FYE 2018.

Comparison between FYE 2018 and FYE 2019

Other income of RM2.4 million for FYE 2019 mainly relates to gain of RM2.0 million on disposal of SDS Top Baker's factories in Klang (mainly consists of land and building) and the gain of RM0.2 million on disposal of PPE during the year.

(d) Administrative expenses

The breakdown of our administrative expenses for FYE 2016 to 2019 is as follows:

	Combined Group							
	Audited							
	FYE 2016		FYE 2017		FYE 2018		FYE 2019	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bad debts written off	4	0.1	-	-	-	-	(3)	-
Depreciation and amortisation	471	5.8	788	7.1	925	6.9	970	7.3
Directors' remuneration	736	9.0	1,017	9.2	1,145	8.5	1,477	11.1
Auditors' remuneration	86	1.0	315	2.8	164	1.2	175	1.3
Quit rent and property assessment	32	0.4	71	0.6	97	0.7	56	0.4
Insurances	587	7.2	598	5.4	603	4.5	591	4.5
Legal and professional fees	70	0.9	200	1.8	175	1.3	150	1.1
Printing and stationery	166	2.0	272	2.5	537	4.0	702	5.3
Staff costs ⁽²⁾	4,783	58.9	6,069	54.8	8,093	60.2	7,408	55.8
Telephone and fax charges	202	2.5	219	2.0	236	1.8	229	1.7
Travelling costs	73	0.9	77	0.7	83	0.6	38	0.3
Upkeep and maintenance	164	2.0	297	2.7	223	1.7	254	1.9
Utilities	54	0.7	70	0.6	104	0.8	47	0.4
Other administrative expenses ⁽¹⁾	696	8.6	1,083	9.8	1,050	7.8	1,186	8.9
	8,124	100.0	11,076	100.0	13,435	100.0	13,283	100.0
<i>As a percentage of revenue</i>	<i>8.6%</i>		<i>7.9%</i>		<i>7.7%</i>		<i>7.1%</i>	

11. FINANCIAL INFORMATION (Cont'd)**Notes:**

- (1) Mainly consists of our Group's bank charges, cleaning charges, security fees, stamping fee and training expenses.
- (2) Staff costs mainly consist of salaries, bonus, staff welfare and statutory contributions for employees.
- (3) Denotes amount less than RM500.

Comparison between FYE 2016 and FYE 2017

Our administrative expenses increased by RM3.0 million (or 36.3%) to RM11.1 million in FYE 2017 (FYE 2016: RM8.1 million). Such increase was mainly due to the acquisition of Daily Bakery, which the corresponding expenses were not included in FYE 2016. The main increase in administrative expenses was as follows:

- Increase in staff cost by RM1.3 million mainly due to acquisition of Daily Bakery (increase by 24 employees), and the recruitment of 5 additional personnel by SDS Food and SDS Top Baker;
- Increase in depreciation and amortisation charges by RM0.3 million mainly due to additional PPE arising from the acquisition of Daily Bakery;
- Increase in directors' remuneration by RM0.3 million mainly due to increase in their salaries and bonuses in line with our business growth; and
- Increase in other administrative expenses by RM0.4 million mainly due to stamping fee of approximately RM0.1 million for the acquisition of Daily Bakery and increase in bank charges by approximately RM0.1 million from higher utilisation of banking facilities in FYE 2017.

Comparison between FYE 2017 and FYE 2018

Our administrative expenses increased by RM2.4 million (or 21.3%) to RM13.4 million in FYE 2018 (FYE 2017: RM11.1 million). Such increase was mainly due to:

- Increase in staff cost by RM2.0 million due to the recruitment of 26 additional personnel by SDS Food and SDS Top Baker as well as for our new manufacturing plant in Seremban;
- Increase in depreciation and amortisation by RM0.1 million due to additional PPE in FYE 2018 as compared to FYE 2017;
- Increase in directors' remuneration by RM0.1 million mainly due to increase in their salaries and bonuses in line with our business growth; and
- Increase in printing and stationery of RM0.3 million as a result of increase in sales volume in line with the commencement of operations at our new manufacturing plant in Seremban.

Comparison between FYE 2018 and FYE 2019

Our administrative expenses decreased by RM0.2 million (or 1.1%) to RM13.3 million in FYE 2019 (FYE 2018: RM13.4 million). Such decrease was mainly due to decrease in staff cost by RM0.7 million mainly due to an internal restructuring of our employees from the administration department to production department for our wholesale channel. The decrease was partially offset by:

- Increase in directors' remuneration by RM0.3 million mainly due to increase in their salaries and bonuses in line with our business growth; and

11. FINANCIAL INFORMATION (Cont'd)

- Increase in printing and stationery of RM0.2 million as a result of increase in sales volume.

(e) Selling and distribution expenses

The breakdown of our selling and distribution expenses for FYE 2016 to 2019 is as follows:

	Combined Group							
	Audited							
	FYE 2016		FYE 2017		FYE 2018		FYE 2019	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Advertisement and promotion	350	2.2	784	3.2	727	2.4	713	2.1
Contract wages	-	-	105	0.4	222	0.7	165	0.5
Insurances	96	0.6	151	0.6	203	0.6	208	0.6
Depreciation and amortisation	2,971	18.9	3,846	15.7	4,972	16.2	5,736	17.3
Documentation charges ⁽¹⁾	82	0.5	179	0.7	243	0.8	356	1.1
Petrol, toll and parking fees	3,262	20.7	4,840	19.7	6,704	21.9	6,933	20.9
Rental expenses	493	3.1	498	2.0	887	2.9	1,065	3.2
Road tax	160	1.0	243	1.0	277	0.9	262	0.8
Staff costs ⁽²⁾	6,296	39.9	11,318	46.0	13,685	44.6	14,882	44.8
Upkeep and maintenance	1,174	7.5	1,986	8.1	2,037	6.6	2,093	6.3
Other selling and distribution expenses ⁽³⁾	881	5.6	643	2.6	729	2.4	800	2.4
	15,765	100.0	24,593	100.0	30,686	100.0	33,213	100.0
<i>As a percentage of revenue</i>	<i>16.8%</i>		<i>17.7%</i>		<i>17.6%</i>		<i>17.7%</i>	

Notes:

- (1) Includes listing fee for displaying and promotion of products at wholesale channels such as hypermarkets, supermarkets and convenience stores.
- (2) Includes sales commission.
- (3) Mainly consists of inspection charges, transport and handling charges.

Comparison between FYE 2016 and FYE 2017

Our selling and distribution expenses increased by RM8.8 million (or 56.0%) to RM24.6 million in FYE 2017 (FYE 2016: RM15.8 million). Such increase was largely due to the acquisition of Daily Bakery. The main increase in selling and distribution expenses was as follows:

- Increase in staff cost by RM5.0 million mainly due to additional sales personnel from Daily Bakery (increase by 100 employees) and higher sales commission paid to Daily Bakery's sales personnel such as van salesmen, which are captured under staff cost;
- Increase in petrol, toll and parking fees by RM1.6 million mainly due to additional delivery vehicles acquired in FYE 2017 to support our business expansion;

11. FINANCIAL INFORMATION (Cont'd)

- Increase in depreciation and amortisation charges by RM0.9 million mainly due to additional delivery vehicles arising from the acquisition of Daily Bakery as well as additional delivery vehicles purchased in FYE 2017;
- Increase in upkeep and maintenance expenses by RM0.8 million mainly because of the acquisition of Daily Bakery's PPE; and
- Increase in advertisement and promotion by RM0.4 million as a result of various strategies undertaken to rebrand 7 F&B outlets during FYE 2017.

Due to the above, selling and distribution expenses as a percentage of revenue increased from 16.8% in FYE 2016 to 17.7% in FYE 2017.

Comparison between FYE 2017 and FYE 2018

Our selling and distribution expenses increased by RM6.1 million (or 24.8%) to RM30.7 million in FYE 2018 (FYE 2017: RM24.6 million). Such increase was largely due to:

- Increase in staff cost by RM2.4 million mainly due to 53 additional sales personnel recruited as we expanded our wholesale customers in Klang Valley, Bidor, Kuantan and Kota Bharu;
- Increase in petrol, toll and parking fees by RM1.9 million as a result of the increase in delivery vehicles in FYE 2018 to support our business expansion;
- Increase in depreciation and amortisation by RM1.1 million as a result of the additional delivery vehicles purchased in FYE 2018; and
- Increase in rental expenses by RM0.4 million from new depots set up in Shah Alam, Taman Jaya and Bidor as at end of FYE 2017 and in FYE 2018.

The increase in selling and distribution expenses was in line with our business growth. Selling and distribution expenses as a percentage of revenue remained consistent between 17.6% and 17.7% for both FYE 2017 and FYE 2018.

Comparison between FYE 2018 and FYE 2019

Our selling and distribution expenses increased by RM2.5 million (or 8.2%) to RM33.2 million in FYE 2019 (FYE 2018: RM30.7 million). Such increase was largely due to:

- Increase in depreciation and amortisation by RM0.8 million mainly due to additional delivery vehicles purchased in FYE 2019 for replacement of old delivery vehicles as well as to increase our fleet of delivery vehicles;
- Increase in petrol, toll and parking fees by RM0.2 million as a result of higher coverage of existing region to serve more new customers; and
- Increase in staff cost by RM1.2 million mainly due to higher sales commission paid to Daily Bakery's sales personnel as sales for Daily Bakery increased.

The increase in selling and distribution expenses was in line with our business growth. Selling and distribution expenses as a percentage of revenue remained consistent between 17.6% and 17.7% for both FYE 2018 and FYE 2019.

11. FINANCIAL INFORMATION (Cont'd)**(f) Other operating expenses**

The breakdown of our other operating expenses for FYE 2016 to 2019 is as follows:

	Combined Group							
	Audited							
	FYE 2016		FYE 2017		FYE 2018		FYE 2019	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Allowance for impairment losses on trade receivables	-	-	-	-	136	38.4	121	22.7
Impairment loss on PPE	-	-	-	-	-	-	273	51.1
Loss on disposal of marketable securities ⁽¹⁾	53	5.9	-	-	-	-	-	-
Loss on disposal of PPE	185	20.8	-	-	-	-	24	4.5
PPE written off	389	43.7	-	-	31	8.8	-	-
Loss on foreign exchange								
• Realised	212	23.8	-	-	186	52.5	116	21.7
• Unrealised	52	5.8	1	100.0	1	0.3	⁽²⁾ -	-
	891	100.0	1	100.0	354	100.0	534	100.0

Notes:

(1) Relates to shares listed on Bursa Securities. Subsequent to the disposal of the shares and up to LPD, we do not hold and have not invested in any shares listed on Bursa Securities.

(2) Represents RM164.

Comparison between FYE 2016 and FYE 2017

Our other operating expenses decreased by RM0.9 million (or 99.9%) to RM694 in FYE 2017 (FYE 2016: RM0.9 million). Such decrease was largely due to expenses recognised in FYE 2016 which did not recur in FYE 2017:

- Loss on disposal of PPE of RM0.2 million;
- PPE written off of RM0.4 million; and
- Realised loss on foreign exchange of RM0.2 million.

Comparison between FYE 2017 and FYE 2018

Our other operating expenses increased to RM0.4 million in FYE 2018 (FYE 2017: RM694). Such increase was largely due to the expenses recognised in FYE 2018 which did not occur in FYE 2017:

- Allowance for impairment losses on trade receivables of RM0.1 million; and
- Realised loss on foreign exchange of RM0.2 million.

Comparison between FYE 2018 and FYE 2019

Our other operating expenses increased by RM0.2 million (or 50.8%) to RM0.5 million in FYE 2019 (FYE 2018: RM0.4 million). Such increase was largely due to the impairment loss on PPE of RM0.3 million relating to a vacant retail unit owned by us. The impairment was made as we were served forfeiture notice on the property as the developer of the said unit, holding the master land title, have long outstanding quit rent and assessment. We are currently seeking legal advice on any recourse which may be available to us under laws.

11. FINANCIAL INFORMATION (Cont'd)**(g) Finance costs**

The breakdown of our finance costs for FYE 2016 to 2019 is as follows:

	Combined Group							
	Audited							
	FYE 2016		FYE 2017		FYE 2018		FYE 2019	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest expense								
• Bank overdrafts	51	3.4	45	2.5	78	2.5	76	2.4
• Bankers' acceptance	249	16.5	291	16.1	333	10.7	254	8.0
• Hire purchase	636	42.1	560	30.9	997	32.2	1,241	39.1
• Term loans	573	38.0	916	50.5	1,321	42.6	1,518	47.9
	1,509	100.0	1,812	100.0	2,729	88.0	3,089	97.4
Imputed interest expense on other payable	-	-	-	-	371	12.0	83	2.6
	1,509	100.0	1,812	100.0	3,100	100.0	3,172	100.0

Comparison between FYE 2016 and FYE 2017

Our finance cost increased by RM0.3 million (or 20.1%) to RM1.8 million in FYE 2017 (FYE 2016: RM1.5 million) mainly due to additional term loans assumed in FYE 2017 from the acquisition of Daily Bakery amounting to RM5.8 million and drawdown of term loans and hire purchases for our working capital purposes and purchases of motor vehicles, plant and machinery amounting to RM7.3 million.

Comparison between FYE 2017 and FYE 2018

Our interest expense increased by RM0.9 million (or 50.6%) to RM2.7 million in FYE 2018 (FYE 2017: RM1.8 million) mainly due to additional term loans of RM7.7 million and hire purchase of RM10.7 million drawn down during FYE 2018. Further details of our borrowings are set out in Section 11.4.

Separately, we also recognised an imputed interest expense on other payable of RM0.4 million, arising from the amortisation of the imputed interest income recognised in FYE 2017 amounting to RM0.6 million, which was partially set-off against the RM0.2 million discount as discussed in Section 11.2.1(j)(ii).

Comparison between FYE 2018 and FYE 2019

Our finance cost increased by RM0.1 million (or 2.3%) to RM3.2 million in FYE 2019 (FYE 2018: RM3.1 million) mainly due to additional term loans of RM3.6 million for working capital purposes and hire purchase of RM3.5 million drawn down during FYE 2019. Further details of our borrowings are set out in Section 11.4.

11. FINANCIAL INFORMATION (Cont'd)**(h) PBT and PBT margin**

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
PBT (RM'000)	4,705	7,965	6,633	9,302
PBT margin (%)	5.0	5.7	3.8	5.0

Comparison between FYE 2016 and FYE 2017

We recorded higher PBT margin of 5.7% for FYE 2017 (FYE 2016: 5.0%). This was mainly due to higher other income in FYE 2017 of RM2.9 million (FYE 2016: RM0.9 million). Included in other income for FYE 2017 was a one-off gain on bargain purchase amounting to RM0.8 million and one-off imputed interest income on other payable of RM0.6 million, both relating to the acquisition of Daily Bakery.

Comparison between FYE 2017 and FYE 2018

Our PBT margin decreased to 3.8% (FYE 2017: 5.7%) mainly due to the following:

- Increase in finance costs of RM1.3 million for FYE 2018; and
- Higher other income recognised in FYE 2017 due to one-off income relating to the acquisition of Daily Bakery.

Comparison between FYE 2018 and FYE 2019

We recorded higher PBT margin of 5.0% for FYE 2019 (FYE 2018: 3.8%). This was mainly due to higher other income in FYE 2019 of RM2.4 million (FYE 2018: RM1.4 million). Included in other income for FYE 2019 was a one-off gain on disposal of assets classified as held for sale of RM2.0 million. Although our selling and distribution expenses also increased RM2.5 million in FYE 2019, the increase is in proportion to the increase in our revenue as selling and distribution expenses remained at approximately 17.7% (FYE 2018: 17.6%) of our revenue.

(i) Income tax

Income tax in the combined statements of profit or loss and other comprehensive income represent the aggregate amount of income tax, real property gains tax and deferred tax.

Our tax expense and effective tax rate for FYE 2016 to 2019 are as follows:

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Income tax	338	⁽¹⁾ 1,176	1,191	1,864
Real property gains tax	-	-	⁽²⁾ 144	⁽³⁾ 137
Deferred tax	493	470	(592)	(553)
	831	1,646	743	1,448
Effective tax rate (%)	17.7	20.7	11.2	15.6

11. FINANCIAL INFORMATION (Cont'd)**Notes:**

- (1) In line with the increase in profit before tax from FYE 2016 to FYE 2017.
- (2) Arising from the sale of Daily Bakery's factories in Johor Bahru.
- (3) Arising from the sale of SDS Top Baker's factories in Klang.

The applicable statutory tax rate for FYE 2016 to FYE 2019 is 24.0%.

Our effective tax rates for FYE 2016 to FYE 2019 were lower than the statutory tax rate mainly due to reinvestment allowance ("RA") for SDS Top Baker and Daily Bakery. We invested in various machinery and factory equipment over the past 4 financial years to increase automation at our manufacturing plants. These machinery and factory equipment and the building of our new manufacturing plant in Seremban are qualified for RA claim.

The increase in the effective tax rate from 17.7% for FYE 2016 to 20.7% for FYE 2017 was mainly due to under provision of approximately RM0.1 million income tax for FYE 2016, coupled with over provision of approximately RM0.1 million income tax for FYE 2017. The lower effective tax rate for FYE 2018 was due to additional RA from our new manufacturing plant in Seremban which correspondingly increased the deferred tax assets recognised therefrom and reduced our income tax expense. The increase in the effective tax rate from 11.2% for FYE 2018 to 15.6% for FYE 2019 was mainly due to lesser amount of assets eligible for claiming RA and under provision of deferred tax assets in previous financial year. The increase was partially offset by the one-off gain on disposal of assets classified as held for sale which was subjected to real property gains tax instead of income tax in FYE 2019.

Under existing tax legislation, the unutilised RA claim is allowed to be carried forward to set off against the Company's future income for indefinite period of time until the entire RA is exhausted. However, based on the latest announced Annual Budget 2019, it was proposed that the RA is only allowed to be carried forward up to a maximum of 7 consecutive years of assessment ("YA") upon expiry of the qualifying period for the RA claim.

We set out below the movement of our RA (based on the tax submission of the respective companies) for FYE 2016 to FYE 2019:

RA	SDS Food	Daily Bakery	SDS Top Baker	Total
	RM'000	RM'000	RM'000	RM'000
<u>FYE 2016</u>				
Opening balance	-	-	4,783	4,783
Add: Additional RA	-	-	996	996
Less: RA utilised	-	-	(1,819)	(1,819)
Closing balance	-	-	3,960	3,960
<u>FYE 2017</u>				
Opening balance	-	-	3,960	3,960
Add: Additional RA	-	-	1,446	1,446
Less: RA utilised	-	-	(1,846)	(1,846)
Closing balance	-	-	3,560	3,560

11. FINANCIAL INFORMATION (Cont'd)

RA	SDS Food	Daily Bakery	SDS Top Baker	Total
	RM'000	RM'000	RM'000	RM'000
FYE 2018				
Opening balance	-	-	3,560	3,560
Add: Additional RA	331	7,864	857	9,053
Less: RA utilised	(331)	-	(1,000)	(1,331)
Closing balance	-	7,864	3,418	11,282
FYE 2019				
Opening balance	-	7,864	3,418	11,282
Add: Additional RA	-	1,185	235	1,420
Less: RA utilised	-	-	(906)	(906)
Closing balance	-	9,049	2,747	11,796

Based on the above and the proposed amendments to the RA announced in the Annual Budget 2019, SDS Top Baker and Daily Bakery have up to YA 2026 and YA 2020 respectively to make further RA claims. SDS Top Baker and Daily Bakery can utilise the RA claims to set off its statutory income up to YA 2033 and YA 2027 respectively.

11.2.3 Review of financial position**(a) Assets**

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

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Non-current assets				
PPE	47,376	95,459	97,596	95,527
Goodwill	162	162	162	162
Deferred tax assets	22	25	524	1,127
Total non-current assets	47,560	95,646	98,282	96,816
Current assets				
Inventories	3,462	5,056	4,656	5,203
Trade receivables	4,871	7,792	8,968	9,277
Other receivables, deposits and prepayments	4,954	6,770	9,455	5,826
Amount owing by directors	122	-	-	-
Amount owing by shareholders	453	-	-	-
Current tax assets	788	1,166	1,396	998
Fixed deposits with a licensed bank	-	140	82	22
Cash and bank balances	2,055	2,675	5,107	6,164
	16,705	23,599	29,664	27,490
Assets classified as held for sale	-	-	2,929	-
Total current assets	16,705	23,599	32,593	27,490
	64,265	119,245	130,875	124,306

11. FINANCIAL INFORMATION (Cont'd)**Comparison between FYE 2016 and FYE 2017**

Our total assets increased by RM55.0 million from RM64.3 million in FYE 2016 to RM119.3 million in FYE 2017. This was mainly due to the increase in non-current assets and current assets by RM48.1 million and RM6.9 million respectively.

The increase in non-current assets was mainly due to consolidation of Daily Bakery's PPE in FYE 2017 (RM31.4 million) and further acquisition of motor vehicles (RM6.1 million), office equipment, furniture and renovation (RM3.3 million) and plant, machinery and factory equipment (RM14.1 million) to support the expansion in our business operations. The additions were partially set-off by depreciation charges of RM7.2 million.

The increase in current assets was also mainly due to the consolidation of Daily Bakery in FYE 2017.

Comparison between FYE 2017 and FYE 2018

Our total assets increased by RM11.6 million from RM119.2 million in FYE 2017 to RM130.9 million in FYE 2018. This was mainly due to the increase in non-current assets and current assets by RM2.6 million and RM9.0 million respectively.

The increase in non-current assets by RM2.6 million or 2.8% in FYE 2018 was mainly due to acquisitions of motor vehicles, office equipment, furniture and renovation as well as plant, machinery and factory equipment amounting to RM19.2 million. The additions were partially set-off by disposal of Daily Bakery's freehold land and buildings in Johor Bahru (which were no longer in use) of RM4.8 million, reclassification of SDS Top Baker's freehold land and buildings in Klang of RM2.9 million to assets held for sale and depreciation charges of RM9.3 million. We were only using part of the buildings in Klang (approximately a quarter of the total built-up area) as our warehouse and as such, decided to dispose the Klang property to realise its value. As at LPD, we have identified a third party buyer and are finalising the sale of the Klang property. As part of the terms of our disposal, we will rent from the buyer a part of the building which we currently use as our warehouse.

The increase in current assets was mainly due to the other factors including the above-mentioned reclassification of freehold land and buildings. Other factors include increase in trade receivables and cash and bank balances by RM1.2 million and RM2.4 million respectively, in line with higher business volume. Our other receivables, deposits and prepayments also increased by RM2.7 million arising from a receivable of RM4.6 million from the disposal of Daily Bakery's factories in Johor Bahru and capitalisation of listing expenses of RM0.4 million, which was partially offset by decrease in down payment paid for plant and machinery ordered for Daily Bakery of RM2.2 million. The receivable from the disposal of Daily Bakery's factories in Johor Bahru was subsequently received by Daily Bakery after 31 March 2018.

Comparison between FYE 2018 and FYE 2019

Our total assets decreased by RM6.6 million from RM130.9 million in FYE 2018 to RM124.3 million in FYE 2019. This was mainly due to the decrease in non-current assets and current assets by RM1.5 million and RM5.1 million respectively.

The decrease in non-current assets by RM1.5 million or 1.5% in FYE 2019 was mainly due to the depreciation charges of RM11.1 million which was partially offset by the acquisition of motor vehicles, office equipment, furniture and renovation, plant,

11. FINANCIAL INFORMATION (Cont'd)

machinery and factory equipment and construction in progress amounting to RM9.4 million.

The decrease in current assets was due to disposal of assets classified as held for sale of RM2.9 million during the year and the receipt of other receivable of RM4.6 million from the disposal of Daily Bakery's factories in Johor Bahru in FYE 2018. This is partially offset by the capitalisation of listing expense of RM1.0 million which was classified as prepayments during the year.

(b) Liabilities

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

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Borrowings	24,734	48,457	58,358	49,313
Other payables and accruals	3,171	18,934	14,040	7,913
Deferred tax liabilities	990	2,155	2,062	2,112
Contract liability ⁽¹⁾	92	103	74	136
Trade payables	13,312	21,866	24,871	25,389
Amount owing to directors	453	10	1	-
Bank overdrafts	733	2,164	473	458
Current tax liabilities	50	64	5	251
	43,535	93,753	99,884	85,572

Note:

(1) Relates to our licensing income received in advance.

Comparison between FYE 2016 and FYE 2017

Our total liabilities increased by RM50.2 million from RM43.5 million in FYE 2016 to RM93.8 million in FYE 2017. This was mainly due to the increase in borrowings, trade payables as well as other payables and accruals by RM23.7 million, RM8.6 million and RM15.8 million respectively.

The increase in borrowings was due to the consolidation of Daily Bakery's term loans amounting to RM5.8 million in FYE 2017 and draw down of additional term loans of RM8.8 million (including term loan to finance purchase of property and equipment) which was offset by repayment of RM1.4 million, draw down of hire purchases of RM13.9 million which was offset by repayment of RM5.5 million during the year. The additional borrowings were for working capital needs and purchases of motor vehicles, plant and machinery. The increase in trade payables was in line with the increase in business activities during the year and also due to the consolidation of Daily Bakery. Other payables mainly relate to the balance consideration payable of RM11.9 million to the vendors for the acquisition of Daily Bakery in FYE 2017.

Comparison between FYE 2017 and FYE 2018

Our total liabilities increased by RM6.1 million from RM93.8 million in FYE 2017 to RM99.9 million in FYE 2018. This was mainly due to the increase in borrowings and trade payables of RM9.9 million and RM3.0 million respectively, which was partially offset by a decrease in other payables and accruals of RM4.9 million.

11. FINANCIAL INFORMATION (Cont'd)

The increase in borrowings was mainly due to additional term loans drawn down during the year of RM7.7 million which was offset by repayment of RM1.9 million, hire purchases drawn down during the year of RM10.7 million which was offset by repayment of RM7.1 million. The additional borrowings were for working capital needs and purchases of motor vehicles, plant and machinery. The increase in trade payables was in line with the increase in business activities during the year.

Other payables mainly relate to the balance consideration payable to the vendors for the acquisition of Daily Bakery in FYE 2017. The decrease in other payables was due to the partial repayment of the consideration during FYE 2018.

Comparison between FYE 2018 and FYE 2019

Our total liabilities decreased by RM14.3 million from RM99.9 million in FYE 2018 to RM85.6 million in FYE 2019. This was mainly due to the decrease in borrowings, as well as other payables and accruals by RM9.0 million and RM6.1 million respectively.

The decrease in borrowings was due to repayment of bankers' acceptance of RM21.3 million which was partially offset by additional bankers' acceptance drawn down during the year of RM14.4 million, repayment of hire purchase of RM6.1 million which was partially offset by an amount of RM3.5 million drawn during the year. The decrease in other payables and accruals mainly relate to the payment of the balance consideration of RM6.9 million to the vendors for the acquisition of Daily Bakery.

11.2.4 Review of cash flows

The following table sets out the summary of the audited combined statements of cash flows of our Group for FYE 2016 to 2019, which have been extracted from the Accountants' Report in Section 12. It should be read in conjunction with the Accountants' Report in Section 12.

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Net operating cash flows	14,639	19,913	19,758	19,905
Net investing cash flows	(2,883)	(19,816)	(6,156)	4,085
Net financing cash flows	(9,901)	(1,064)	(9,473)	(22,945)
Net change in cash and cash equivalents	1,855	(967)	4,129	1,045
Effect of foreign exchange translation	127	216	(66)	49
Cash and cash equivalents at the beginning of the financial year	(660)	1,322	571	4,634
Cash and cash equivalents at the end of the financial year	1,322	571	4,634	5,728
Analysis of cash and cash equivalents				
Fixed deposits with a licensed bank	-	140	82	22
Cash and bank balances	2,055	2,675	5,107	6,164
Bank overdrafts	(733)	(2,164)	(473)	(458)
	1,322	651	4,716	5,728
Less: Fixed deposits pledged to a licensed banks	-	(80)	(82)	-
	1,322	571	4,634	5,728

11. FINANCIAL INFORMATION (Cont'd)**Commentary of cash flows****FYE 2016****Cash flows from operating activities**

For FYE 2016, we generated net operating cash flows of RM14.6 million. We collected approximately RM93.0 million from our customers which was partially offset by cash payments of approximately RM78.4 million. Such cash payments were mainly for:

- Approximately RM45.6 million paid to our trade suppliers;
- Approximately RM31.9 million paid for our operating expenses and salaries; and
- Income tax paid (net of income tax refunded) of RM0.9 million.

Cash flows for investing activities

We recorded a net cash outflow of RM2.9 million from our investing activities in FYE 2016, mainly due to:

- Investment in shares listed on Bursa Securities of RM1.4 million; and
- Purchases of PPE (net of financing) of RM3.9 million mainly relating to the purchase of motor vehicles.

This outflow was partially offset mainly by cash inflow from the disposal of SDS Tan Properties of RM1.8 million as well as proceeds from disposal of shares listed on Bursa Securities of RM0.9 million.

Cash flows for financing activities

We recorded a net cash outflow of RM9.9 million from our financing activities in FYE 2016. This was mainly due to the following outflows:

- Dividend payment of RM1.3 million;
- Interest payment of RM1.6 million; and
- Repayment of hire purchase and term loans of RM5.1 million and RM1.2 million respectively.

FYE 2017**Cash flows from operating activities**

For FYE 2017, we generated net operating cash flows of RM19.9 million. We collected approximately RM138.0 million from our customers which was partially offset by cash payments of approximately RM118.1 million. Such cash payments were mainly for:

- Approximately RM75.4 million paid to our trade suppliers;
- Approximately RM41.1 million paid for our operating expenses and salaries; and
- Income tax paid (net of income tax refunded) of RM1.6 million.

11. FINANCIAL INFORMATION (Cont'd)**Cash flows for investing activities**

We recorded a net cash outflow of RM19.8 million from our investing activities in FYE 2017, mainly due to the following outflows:

- Partial payment of consideration for the acquisition of Daily Bakery of RM13.3 million; and
- Purchases of PPE (net of financing) of RM8.5 million mainly relating to the purchase of motor vehicles, plant, machinery and factory equipment.

The outflow was partially offset by proceeds received from disposal of PPE of RM0.8 million and proceeds received for disposal of SDS Tan Properties in FYE 2017 of RM0.5 million.

Cash flows for financing activities

We recorded a net cash outflow of RM1.1 million from our financing activities in FYE 2017, mainly due to the following outflows:

- Dividend payment of RM1.8 million;
- Interest payment of RM1.9 million; and
- Repayment of hire purchase and term loans of RM5.5 million and RM1.4 million respectively.

Such outflow was partially offset by the drawdown of term loans of RM7.3 million and net drawdown of bankers' acceptances of RM2.2 million, all for our working capital purpose.

FYE 2018**Cash flows from operating activities**

For FYE 2017, we generated net operating cash flows of RM19.8 million. We collected approximately RM173.0 million from our customers which was partially offset by cash payments of approximately RM153.2 million. Such cash payments were mainly for:

- Approximately RM97.7 million paid to our trade suppliers;
- Approximately RM53.9 million paid for our operating expenses and salaries; and
- Income tax paid (net of income tax refunded) of RM1.6 million.

Cash flows for investing activities

We recorded a net cash outflow of RM6.2 million from our investing activities in FYE 2018, mainly due to the purchases of PPE (net of financing) of RM7.4 million mainly relating to the purchase of motor vehicles, plant, machinery and factory equipment.

Such outflow was partially offset by the proceeds from disposal of PPE of RM1.2 million.

Cash flows for financing activities

We recorded a net cash outflow of RM9.5 million from our financing activities in FYE 2018, mainly due to the following outflows:

- Dividend payment of RM0.3 million;
- Interest payment of RM3.4 million;
- Repayment of loan from other payable of RM5.0 million, which relates to the payment of the deferred consideration for the acquisition of Daily Bakery;

11. FINANCIAL INFORMATION (Cont'd)

- Repayment of hire purchase and term loans of RM7.1 million of RM1.9 million respectively.

Such outflow was partially offset by the drawdown of term loans of RM7.7 million for our working capital purpose.

FYE 2019**Cash flows from operating activities**

For FYE 2019, we generated net operating cash flows of RM19.9 million. We collected approximately RM186.5 million from our customers which was partially offset by cash payments of approximately RM166.8 million. Such cash payments were mainly for:

- Approximately RM103.9 million paid to our trade suppliers;
- Approximately RM61.5 million paid for our operating expenses and salaries; and
- Income tax paid (net of income tax refunded) of RM1.4 million.

Cash flows from investing activities

We recorded a net cash inflow of RM4.1 million from our investing activities in FYE 2019, mainly due to the following inflows:

- Proceeds of RM4.9 million from disposal of assets classified as held for sale (SDS Top Baker's factories in Klang which mainly consists of land and building); and
- Proceeds of RM4.6 million which was received in FYE 2019 from disposal of PPE in FYE 2018 (Daily Bakery's factories in Johor Bahru which were no longer in use).

Such inflow was partially offset by purchases of PPE (net of financing) of RM5.7 million.

Cash flows for financing activities

We recorded a net cash outflow of RM22.9 million from our financing activities in FYE 2019, mainly due to the following outflows:

- Dividend payment of RM0.2 million;
- Interest payment of RM3.2 million;
- Net repayment of bankers' acceptance of RM6.9 million;
- Repayment of loan from other payable of RM7.1 million, which mainly relates to the payment of the balance consideration to the vendors for the acquisition of Daily Bakery; and
- Repayment of hire purchase and term loans of RM6.1 million and RM3.2 million respectively.

Such outflow was partially offset with the drawdown of term loans of RM3.6 million for our working capital purpose.

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11. FINANCIAL INFORMATION (Cont'd)**11.3 LIQUIDITY AND CAPITAL RESOURCES****11.3.1 Working capital**

Our business requires a significant amount of working capital to finance the purchase of raw materials, payment of labour and transportation costs of our products.

We have been financing our operations through existing cash and bank balances, cash generated from our operations, credit extended to us by our suppliers and external sources of funds. Our external sources of funds mainly comprise term loans, bank overdrafts, trade facilities such as bankers' acceptance and hire purchase financing.

We recorded net current liabilities during the past 4 financial years mainly due to the use of cash generated from operations (short term funds) instead of external long term funds, to finance our capital expenditure (long term assets). Such capital expenditure mainly relates to delivery vehicles, plant machinery and factory equipment and the acquisition of Daily Bakery. Our capital expenditure for FYE 2016 to 2019 and the cash disbursed for such capital expenditure are as follows:

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Cost of PPE purchased	6,969	23,991	19,218	9,431
Amount funded via financing	(4,464)	(15,384)	(11,574)	(3,470)
Downpayment paid in previous financial year	-	-	-	(261)
Borrowing cost capitalised	-	(68)	(268)	-
Cash disbursed for PPE purchased	2,505	8,539	7,376	5,700
Cash disbursed for acquisition of Daily Bakery	-	13,330	-	-

Our capital expenditure was incurred mainly for the expansion of our business. We acquired Daily Bakery in FYE 2017 to expand our wholesale channel in particular to establish new manufacturing footprint in Seremban to support the expansion of our wholesale channel outside of Johor. The plant machinery and factory equipment acquired were mainly for the abovementioned new manufacturing plant, which commenced operations in November 2017. In line with our expansion plans, we also acquired new and replaced old delivery vehicles. Our fleet of 1-tonne delivery vehicles for the wholesale channel increased from 132 units as at 31 March 2016 to 250 units as at LPD.

We were able to finance our capital expenditure using cash generated from operations as generally our cash sales is between 60% to 70% of our total revenue. For FYE 2016 to 2019, our cash sales was approximately RM61.5 million, RM88.5 million, RM119.3 million RM131.6 million respectively.

We may continue to use cash generated from operations to finance our capital expenditure, and as such, may continue to be in a net current liabilities position. However, in view of our significant expansion during the past 4 financial years and up to the date of Listing, we do not foresee any further significant business expansion and capital expenditure in the next 2 years from the date of our Listing, save for the business strategies as disclosed in Section 7.17. Based on the pro forma combined statements of financial position of our Group as at 31 March 2019 after Acquisitions and Public Issue (including the utilisation of proceeds), our net current liabilities will reduce to RM4.7 million. Moving forward, we expect our net

11. FINANCIAL INFORMATION (Cont'd)

current liabilities position to reduce further as we do not foresee any significant outflow in cash flows generated from operations to fund major capital expenditure.

In assessing whether our Group have sufficient working capital for the next 12 months from the date of this Prospectus, our Board has considered the following:

- (a) Our Group generated strong operating cash flows for FYE 2016 to 2019 amounting to RM14.6 million, RM19.9 million, RM19.8 million and RM19.9 million respectively;
- (b) A major portion of our Group's sales transactions are cash basis. In comparison, our suppliers generally extend credit terms of between 30 to 120 days from the date of tax invoice. Such trends in cash sales and suppliers credit are expected to continue;
- (c) Based on the audited combined statements of financial position, our cash and bank balances and fixed deposits placed with a licensed bank have increased from RM2.1 million (as at 31 March 2016) to RM2.8 million (as at 31 March 2017) to RM5.2 million (as at 31 March 2018) to RM6.2 million (as at 31 March 2019);
- (d) Our Group has secured banking facilities (excluding hire purchase financing) up to a limit of RM48.2 million, of which RM31.2 million has been drawn. There is still RM17.0 million which has not been utilised and is available for drawdown, if required. Further, we have allocated RM7.0 million from the Public Issue proceeds to repay our bank borrowings, which will reduce our gearing ratio from 1.3 times to 0.7 times; and
- (e) Our interest coverage ratio for FYE 2016 to 2019 was 7.9 times, 9.3 times, 6.2 times and 7.4 times respectively, which indicates that we generate sufficient earnings to meet our interest obligations.

Taking into account the factors above, the cash flows generated from operations, together with our existing cash and bank balances and available banking facilities, our Board is confident that we have sufficient working capital for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus. As a result, we do not expect to undertake any fund raising exercise from the capital markets within 12 months from the date of this Prospectus.

At this juncture, we also do not foresee any circumstances which may materially affect our liquidity. We expect to continue our cash sales to customers and credit terms from our trade creditors are also expected to remain. Further, based on the 4 financial years under review, we also did not incur any material bad debts from our credit sales which we had to write off. Impairment of trade receivables charged to our combined statements of profit or loss and other comprehensive income amounted to RM0.1 million in FYE 2019. This represents only 1.3% of our trade receivables balance as at 31 March 2019. Our finance department monitors our trade receivable balances on a monthly basis to ensure their collectability. From our past experiences, most of our customers have settled their outstanding balances.

11. FINANCIAL INFORMATION (Cont'd)**11.4 BORROWINGS**

We utilise credit facilities such as overdrafts and trade financing to partially finance our working capital. In addition, we also utilise term loans for working capital purpose and to finance the purchase of machinery and construction of property. We also use hire purchase to finance the purchase of plant and machinery and motor vehicles.

Our total outstanding bank borrowings as at 31 March 2019 stood at RM49.8 million, details are set out below. All our bank borrowings are interest-bearing, and denominated in RM.

Details	Purpose	Security	Tenure	Interest rate	As at 31 March 2019
				% per annum	RM'000
Interest bearing short-term borrowings, payable within 1 year:					
Bank overdrafts	For working capital purpose	The bank overdrafts, bankers' acceptance and term loans are secured by:	On demand	7.47 - 7.90%	458
Bankers' acceptance	For working capital purpose	(a) Land and buildings owned by our Group;	Up to 119 days	3.89 – 4.09%	948
		(b) A piece of land owned by certain of our Directors, a director of our subsidiary, persons connected to certain of our Directors and a third party ⁽⁴⁾ ;			
Term loans	For purchase of property, machinery, construction of property and working capital purpose	(c) Land and buildings owned by a company in which certain of our Directors have controlling interests ⁽⁴⁾ ; and (d) Joint and several guarantees by certain of our Directors ⁽⁵⁾ .	⁽¹⁾ Repayable by 72 to 240 months	4.67 - 6.89%	2,302
Finance lease liabilities	To finance purchase of plant and machinery and motor vehicles	The finance leases are secured by assets purchased through the facilities.	1 to 5 years	4.33 - 6.80%	5,542
Sub-total					9,250

11. FINANCIAL INFORMATION (Cont'd)

Details	Purpose	Security	Tenure	Interest rate	As at 31 March
				% per annum	2019
					RM'000
Interest bearing long-term borrowings, payable after 1 year:					
Term loans	For purchase of property, machinery, construction of property and working capital purpose	The term loans are secured by: (a) Land and buildings owned by our Group; (b) A piece of land owned by certain of our Directors, a director of our subsidiary, persons connected to certain of our Directors and a third party ⁽⁴⁾ ; (c) Land and buildings owned by a company in which certain of our Directors have controlling interests ⁽⁴⁾ , and (d) Joint and several guarantees by certain of our Directors ⁽⁵⁾ .	Repayable by 72 to 240 months	4.67 - 6.89%	27,530
Finance lease liabilities	To finance purchase of plant and machinery and motor vehicles	The finance leases are secured by assets purchased through the facilities.	1 to 5 years	4.33 - 6.80%	12,991
				Sub-total	40,521
Total bank borrowings					49,771
Pro forma gearing (times)					
After Acquisitions but before Public Issue ⁽²⁾					1.3
After Public Issue ⁽³⁾					0.7

11. FINANCIAL INFORMATION (Cont'd)**Notes:**

(1) Our term loans comprise 15 conventional term loans and 3 Islamic term financing, all with varying tenures, details as follows:

Term loan	Tenure	As at 31 March 2019
Conventional		RM'000
• Term loan 1	15 years commencing from April 2011	1,473
• Term loan 2	15 years commencing from April 2011	551
• Term loan 3	12 years commencing from August 2014	233
• Term loan 4	12 years commencing from August 2014	113
• Term loan 5	15 years commencing from June 2016	4,333
• Term loan 6	10 years commencing from November 2016	274
• Term loan 7	10 years commencing from November 2016	113
• Term loan 8	10 years commencing from January 2018	422
• Term loan 9	20 years commencing from August 2015	5,257
• Term loan 10	7 years commencing from October 2016	874
• Term loan 11	20 years commencing from June 2017	1,897
• Term loan 12	20 years commencing from November 2017	1,928
• Term loan 13	20 years commencing from January 2012	4,831
• Term loan 14	10 years commencing from November 2016	388
• Term loan 15	20 years commencing from December 2018	2,483
	Sub-total	25,170
Islamic		
• Islamic term financing 1	7 years commencing from November 2016	1,059
• Islamic term financing 2	7 years commencing from November 2017	2,634
• Islamic term financing 3	6 years commencing from January 2019	969
	Sub-total	4,662
		29,832

(2) Computed based on our pro forma shareholders fund of RM38.7 million in the pro forma combined statements of financial position after Acquisitions but before Public Issue.

11. FINANCIAL INFORMATION (Cont'd)

- (3) Computed based on our pro forma shareholders fund of RM59.5 million in the pro forma combined statements of financial position after Acquisitions and Public Issue (including the utilisation of proceeds).
- (4) These securities will be redeemed via the IPO proceeds allocated for repayment of bank borrowings. Please refer to Section 4.9.1(b) for further details. These securities relates to Islamic term financing 1 and Islamic term financing 2 as mentioned in Note (1) above.
- (5) We have received conditional approvals from respective banks to discharge the said guarantees subject to our Listing and corporate guarantee to be provided by SDSG. These securities relates to all the 15 conventional term loans and 3 Islamic term financing as mentioned in Note (1) above.

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11. FINANCIAL INFORMATION (Cont'd)

Our pro forma gearing ratio is expected to improve from 1.3 times (before Public Issue) to 0.7 times (after Public Issue and utilisation of proceeds) due to the increase in shareholders' fund arising from the issuance of new Shares under the Public Issue as well as partial repayment of our bank borrowings from proceeds of the Public Issue.

Our bank borrowings and finance lease liabilities bear interests or profit payable at the following rates for the past 4 financial years under review:

	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	% per annum			
Floating rates				
Bank overdrafts	7.22 - 7.85	7.22 - 7.79	7.47 - 7.90	7.47 - 7.90
Term loans	4.55 - 7.35	4.30 - 6.54	4.55 - 6.85	4.67 - 6.89
Fixed rates				
Bankers' acceptance	3.95 - 5.11	3.58 - 5.10	3.66 - 5.19	3.89 - 4.09
Finance lease liabilities	4.37 - 7.60	4.37 - 7.60	4.33 - 6.61	4.33 - 6.80

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

	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Bank borrowings				
Within the next 12 months	6,795	11,011	10,402	3,708
After the next 12 months:				
• Later than 1 year but not later than 2 years	690	1,565	2,217	2,398
• Later than 2 years but not later than 5 years	2,277	5,315	7,789	7,583
• More than 5 years	6,562	15,241	17,294	17,549
	16,324	33,132	37,702	31,238
Finance lease liabilities				
Within the next 12 months	4,882	6,000	5,621	5,542
After the next 12 months:				
• Later than 1 year but not later than 2 years	3,409	3,611	4,794	5,814
• Later than 2 years but not later than 5 years	852	7,878	10,714	7,177
	9,143	17,489	21,129	18,533

As at LPD, we do not have any bank borrowings which are non-interest bearing and/or in foreign currency. We have not defaulted on payments of principal sums and/or interests in respect of any bank borrowings throughout FYE 2016 to 2019 and the subsequent financial period up to LPD.

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

Over FYE 2016 to 2019, we have not experienced any claw back or reduction in the facilities limit granted to us by our financiers.

11. FINANCIAL INFORMATION (Cont'd)**11.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES**

From an accounting perspective, financial instruments may include fixed deposits with licensed banks, trade and other receivables, trade and other payables and borrowings as shown on our combined statements of financial position. These financial instruments are used in our ordinary course of business.

As at LPD, save for such financial instruments, we do not utilise any other financial instruments. We finance our operations mainly through cash generated from our operations, credit extended by our suppliers as well as external sources of funds which mainly comprise bank borrowings. The principal usages of these bank borrowings are for working capital and to partially finance the purchase of PPE and construction of property.

Our bank borrowings (save for our bankers' acceptances and finance lease liabilities) as at 31 March 2019 are priced based on base lending rate plus a rate which varies depending on the different type of bank facility. Our bankers' acceptances and finance lease liabilities as at 31 March 2019 are based on fixed rate.

11.6 MATERIAL CAPITAL COMMITMENTS, LITIGATION AND CONTINGENT LIABILITIES**11.6.1 Material capital commitments**

Save as disclosed below, we do not have any material capital commitments as at LPD:

	<u>RM'000</u>
Approved and contracted for:	
• Purchase of PPE	<u>1,966</u>

The purchase of PPE is to support the growth of our business and is expected to be finance by a combination of bank borrowings, hire purchase and internally generated funds.

11.6.2 Material litigation and contingent liability

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

There are no contingent liabilities incurred by us or our subsidiaries, which upon becoming enforceable, may have a material effect on our financial position or our subsidiaries as at LPD.

11. FINANCIAL INFORMATION (Cont'd)**11.7 KEY FINANCIAL INDICATORS**

The key financial indicators of our Group for FYE 2016 to 2018 are as follows:

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
Trade receivable turnover (days) ⁽¹⁾	50	45	55	60
Trade payable turnover (days) ⁽²⁾	60	66	70	71
Inventory turnover:	19	16	14	14
• Perishable goods (days) ⁽³⁾	12	11	11	12
• Non-perishable goods (days) ⁽⁴⁾	86	79	69	58
Current ratio (times) ⁽⁵⁾	0.6	0.5	0.6	0.6
Gearing ratio (times) ⁽⁶⁾	1.2	2.0	1.9	1.3

Notes:

- (1) Computed based on average trade receivables and net of allowances for impairment loss over revenue which were on credit terms for the year multiplied by 365 days for each of FYE 2016 to 2019. The revenue which were on credit terms for FYE 2016 to 2018 were RM32.5 million, RM50.9 million, RM54.9 million and RM55.5 million respectively.
- (2) Computed based on average trade payables over costs of sales for the year multiplied by 365 days for each of FYE 2016 to 2019.
- (3) Refers to food ingredients and finished goods. Computed based on average inventories for food ingredients and finished goods over costs of raw materials for food ingredients for the year multiplied by 365 days for each of FYE 2016 to 2019. The cost of direct labour and overheads are not included as we are unable to allocate it between food ingredients and non-food ingredients.
- (4) Refers to non-food ingredients. Computed based on average inventories for non-food ingredients over costs of raw materials for non-food ingredients for the year multiplied by 365 days for each of FYE 2016 to 2019. The cost of direct labour and overheads are not included as we are unable to allocate it between food ingredients and non-food ingredients.
- (5) Computed based on current assets over current liabilities as at year end for each of FYE 2016 to 2019.
- (6) Computed based on the total bank borrowings over total equity as at year end for each of FYE 2016 to 2019.

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11. FINANCIAL INFORMATION (Cont'd)**11.7.1 Trade receivables turnover**

The ageing analysis of our trade receivables as at 31 March 2019 is as follows:

	Trade receivables as at 31 March 2019		Amount collected subsequent to 31 March 2019 up to LPD		Trade receivables net of subsequent collections	
	RM'000	Percentage of trade receivables (a) / total of (a)	RM'000	Percentage collected (b) / (a)	RM'000	Percentage of trade receivables net of subsequent collections (c) / total of (c)
Neither past due nor impaired	5,188	55.2	4,634	89.3	554	68.1
Past due but not impaired:						
• 1 to 30 days	2,613	27.8	2,596	99.3	17	2.1
• 31 to 60 days	990	10.5	967	97.7	23	2.8
• 61 to 90 days	190	2.0	178	93.7	12	1.5
• More than 90 days	296	3.2	210	70.9	86	10.6
Impaired	4,089	43.5	3,951	96.6	138	17.0
	121	1.3	-	-	121	14.9
Total	9,398	100.0	8,585	91.3	813	100.0

We do not have significant concentration of credit risk from our trade receivables as at 31 March 2019. Our top 5 major customers for FYE 2019 as set out in Section 7.8 each represented less than 3.0% of our Group's revenue for FYE 2019.

11. FINANCIAL INFORMATION (Cont'd)

The normal credit period granted by our Group in respect of our trade receivables is between 30 and 60 days from the date of tax invoice. Our trade receivables turnover for FYE 2016 to 2019 is between 45 and 60 days. As at 31 March 2019, we have approximately 1,000 debtors. Our trade receivable turnover increased as our customers took longer time to process our payment.

We use ageing analysis to monitor the credit quality of our trade receivables. Our management closely monitors the recoverability of our trade receivables on a regular basis, and, when appropriate, provides for impairment of these trade receivables. With respect to overdue trade receivables, we have generally been able to collect payment eventually. As such, our Board is of the view that the overdue trade receivables are recoverable. Our Group has not encountered any major disputes with our debtors. Based on the 4 financial years under review, save for the allowances for impairment made below, total bad debts written off for the past 4 financial years was less than RM5,000. Allowances for impairment loss for the financial years under review are as follows:

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Allowance for impairment loss charged to combined statements of profit or loss and other comprehensive income	-	-	136	121

Allowances for impairment loss on trade receivables charged to our combined statements of profit or loss and other comprehensive income for FYE 2019 represents only 1.3% of our trade receivables balance (net of impairment) of RM9.3 million as at 31 March 2019.

Trade receivables that are impaired are debts outstanding for more than 1 year. Despite numerous follow ups with the customers, the amount outstanding remains unpaid. As such, we have provided the allowances for impairment loss on prudent basis. The allowances for impairment loss is spread out over 146 and 11 debtors for FYE 2018 and FYE 2019 respectively. We have not initiated any legal actions against those debtors. Our management will nonetheless, still continue to recover those trade debts through follow ups with the customers.

11.7.2 Trade payables turnover

The ageing analysis of our trade payables as at 31 March 2019 is as follows:

	RM'000	Percentage of trade payables
Within credit period	14,927	58.8
Exceeding credit period:		
• 1 to 30 days	6,637	26.2
• 31 to 60 days	3,005	11.8
• 61 to 90 days	819	3.2
• More than 90 days	1	(2)
	⁽³⁾ 10,462	41.2
	25,389	100.0

11. FINANCIAL INFORMATION (Cont'd)**Notes:**

- (1) Subsequent to 31 March 2019 and up to LPD, we have paid our creditors amounting to RM24,567,555.
- (2) Less than 0.1%
- (3) Approximately RM9.8 million (or 93.5%) had an original credit term of between 30 to 90 days. The balance of approximately RM0.7 million (or 6.5%) had an original credit term of 120 days.

The normal credit terms granted by our trade creditors to our Group ranges from 30 to 120 days from the date of tax invoice. Our trade payable turnover increased from 60 to 66 days for FYE 2017, then to 70 days for FYE 2018 and to 71 days for FYE 2019 mainly because we have negotiated with our major flour suppliers to extend the credit terms granted to us in FYE 2017. Due to higher purchases of flour after the acquisition of Daily Bakery, 2 of our major flour suppliers agreed to increase the credit terms from 90 to 120 days and 120 to 150 days. This was a temporary arrangement whilst we streamline and integrate our operations with Daily Bakery. After the completion of the integration with Daily Bakery, the extended credit period for one of the flour supplier was reverted back to the original terms of 120 days in FYE 2019. However, this did not have any material impact on our operating cash flow.

Our trade payable turnover period for FYE 2016 to 2019 was within the normal credit terms granted by our creditors. As at LPD, there are no disputes in respect of our trade payables and no legal action has been initiated by our suppliers to demand for payment.

11.7.3 Inventory turnover

Our Group's inventories mainly consist of raw materials, finished goods and packaging materials. The inventory turnover for our perishable inventory ranged from 11 to 12 days, whilst the inventory turnover for non-perishable inventory ingredients ranged from 58 to 86 days, for FYE 2016 to 2019.

Although our food ingredients and finished goods are perishable products, our perishable inventory turnover days are still relatively long as food ingredients such as eggs, fruits and vegetables which have a shorter shelf life only constituted 14.6%, 12.6%, 10.3% and 9.0% of our cost of raw materials for FYE 2016 to 2019 respectively. The remaining perishable items such as flour, sugar, dairy products, edible oil, yeast or frozen food, have an average shelf life of 6 to 12 months.

We impair all our perishable inventory based on their expiry dates. For non-perishable inventory, we conduct annual review and items which are no longer in use will be impaired.

There was no write-off of inventories during FYE 2016 to 2017 and FYE 2019. Inventories written off in FYE 2018 amounted to RM59,000 in relation to packaging materials which are no longer in use.

11. FINANCIAL INFORMATION (Cont'd)**11.7.4 Current ratio**

The current assets and current liabilities as at FYE 2016 to 2019 are as follows:

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
	RM'000	RM'000	RM'000	RM'000
Current assets	16,705	23,599	32,593	27,490
Current liabilities	(28,684)	(50,816)	(54,275)	(42,350)
Net current liabilities	(11,979)	(27,217)	(21,682)	(14,860)
Current ratio (times)	0.6	0.5	0.6	0.6

Historically, we have been financing our capital expenditure through cash generated from operations as a major portion of our sales are transacted based on cash on delivery. For FYE 2016 to 2019, our cash sales constituted approximately 65.5%, 63.5%, 68.5% and 70.3% of our total revenue while the normal credit terms granted to us by our trade creditors ranges from 30 to 120 days. As such, given the credit extended by our suppliers, we were able to use a portion of our cash sales to finance our capital expenditure which resulted in lower current assets over the financial years under review.

Further, included in current liabilities as at the end of FYE 2017 and 2018 was an amount owing to the vendors of Daily Bakery of RM4.8 million and RM6.9 million respectively, being deferred payment under the terms of the sale and purchase agreement.

Our current ratio throughout the financial years under review ranged from 0.5 to 0.6 times, as indicated by our negative working capital of RM12.0 million to RM27.2 million for the periods under review. This was primarily due to our usage of cash generated from operations to partially finance our capital expenditure during FYE 2016 to 2019 as well as the acquisition of Daily Bakery in FYE 2017.

We also propose to utilise RM7.0 million from the proceeds of our Public Issue to partially reduce our short-term borrowings. This will further improve our current ratio and net current liabilities position, as illustrated by our pro forma financial position as at 31 March 2019:

	SDSG	I	II	III
	As at 31 March 2019	After Acquisitions	After I and Public Issue	After II and utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
Current assets	30	27,490	51,478	35,278
Current liabilities	42	42,350	42,350	40,010
Net current liabilities	(12)	(14,860)	(1)9,128	(4,732)
Current ratio (times)	0.7	0.6	1.2	0.9

Note:

(1) This is due to increase in cash and bank balances arising from receipt of the Listing proceeds and before its utilisation.

Please refer to Section 11.3.1 for further details on the net current liabilities in particular the sufficiency of our working capital given the net current liabilities position.

11. FINANCIAL INFORMATION (Cont'd)**11.7.5 Gearing ratio**

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

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
Total bank borrowings (RM'000)	25,467	50,621	58,831	49,771
Total equity (RM'000)	20,730	25,492	30,991	38,734
Gearing ratio (times)	1.2	2.0	1.9	1.3

In FYE 2017, our bank borrowings increased by RM25.2 million or 98.8% mainly due to the consolidation of Daily Bakery's term loans post acquisition and draw down of additional term loans and hire purchases for working capital needs and purchases of motor vehicles, plant and machinery. Our gearing ratio increased to 2.0 times (FYE 2016: 1.2 times) due to the increase in borrowings.

In FYE 2018, our bank borrowings increased by RM8.2 million or 16.2% mainly due to draw down of additional term loans and hire purchases for working capital needs and purchases of motor vehicles, plant and machinery. However, our gearing ratio reduced to 1.9 times due to the improved total equity as a result of profits earned in FYE 2018.

In FYE 2019, our bank borrowings decreased by RM9.0 million or 15.4% mainly due to the net repayment of bankers' acceptance of RM6.9 million and repayment of hire purchase of RM6.1 million which was partially offset by an amount of RM3.5 million drawn during the year. In line with the decrease in bank borrowings, our gearing ratio decreased to 1.3 times (FYE 2018: 1.9 times).

11.8 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

Risks relating to government, economic, fiscal or monetary policies or factors which may materially affect our operations are set out in Section 9.

There were no government, economic, fiscal or monetary policies or factors which have materially affected our financial performance during the financial years under review. However, there is no assurance that our financial performance will not be adversely affected by the impact of any change in government, economic, fiscal or monetary policies or factors moving forward.

11.9 IMPACT OF INFLATION

Our financial performance during the financial years under review was not significantly affected by the impact of inflation. However, there is no assurance that our business will not be adversely affected by the impact of inflation in the future.

11.10 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/ OR COMMODITY PRICES**11.10.1 Impact of foreign exchange rates**

	SGD	Total
	RM'000	RM'000
Financial liabilities		
Trade payables	1,649	1,649
Total	1,649	1,649

11. FINANCIAL INFORMATION (Cont'd)

Based on the table above, our foreign currency trade payables represent only 6.5% of our total trade payables of RM25.4 million as at 31 March 2019. Such trade payables are mainly for purchase of raw materials such as dairy products and milk compound.

At the moment, our Group does not enter into forward exchange contracts to hedge foreign currency risks. However, we monitor the foreign exchange fluctuations on an on-going basis. Foreign currency risk is monitored closely on an on-going basis to ensure that the net exposure is at an acceptable level.

Moving forward, we may be subject to the risk of fluctuations in foreign exchange rates if we increase our overseas purchases. If required, necessary steps will be taken which include but not limited to entering into forward exchange contracts or alternatively, we may opt for a natural hedge mechanism by maintaining foreign currency accounts to minimise the foreign currency risk.

11.10.2 Impact of interest rates

	Combined Group			
	Audited			
	FYE 2016	FYE 2017	FYE 2018	FYE 2019
EBITDA (RM'000)	11,918	16,926	19,069	23,605
Finance costs (RM'000)	1,509	1,812	3,100	3,172
Interest coverage ratio (times) ⁽¹⁾	7.9	9.3	6.2	7.4

Note:

⁽¹⁾ Computed based on EBITDA over finance costs for FYE 2016 to 2019.

Interest coverage ratio measures the number of times a company can make its interest payments with its earnings.

Our interest coverage ratio of between 6.2 to 9.3 times for FYE 2016 to 2019 indicates that our Group has been able to generate sufficient earnings to meet our interest serving obligations.

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

11.10.3 Impact of commodity prices

Our Group's raw materials are mainly food ingredients such as flour, sugar, edible oil, eggs, cheese, meats, seafood, spices, seasonings and sauces. These raw materials are mostly available in Malaysia and are sourced from our large base of suppliers.

Some of our raw materials such as flour and sugar are price-controlled items in Malaysia. Any adverse changes in the price control of such raw materials will raise our costs of sales and may have an adverse effect on us. However, any such price increases will affect the entire bakery products market in Malaysia. We will generally pass on such price increase to our customers (wherever possible) to minimise the impact on our Group's financial results. We were not directly affected by major fluctuations in the prices of food ingredients during FYE 2016 to 2019.

11. FINANCIAL INFORMATION (Cont'd)**11.11 DIRECTORS' DECLARATION ON OUR GROUP'S FINANCIAL PERFORMANCE**

Our Board is of the opinion that:

- (a) Despite the potential higher operating costs and depreciation charges arising from our new manufacturing plant in Seremban, our revenue and GP will remain sustainable with an upward growth trend, in line with the growth in the bakery products market in Malaysia as set out in the IMR Report;
- (b) Our net current liabilities position will improve subsequent to the Public Issue given the additional funds to reduce our short-term borrowings and such net current liabilities position will not have a material adverse impact on our Group's working capital as discussed in Section 11.3.1;
- (c) Our liquidity will improve subsequent to the Public Issue given the additional funds to be raised for us to carry out our business strategies as stated in Section 7.17; and
- (d) Our financial resources will strengthen, taking into account the amount to be raised from the Public Issue as well as internally generated funds. We may consider external debt funding for our business expansion should the need arises.

In addition to the above, there are no circumstances which would result in a significant decline in our revenue and GP margins or any factors that are likely to have a material impact on our liquidity, revenue or profitability.

11.12 TREND INFORMATION

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

- (a) During FYE 2016 to 2019, more than 67.4% of our revenue was derived from our wholesale channel, while revenue from the retail channel was between 39.2% and 45.4% (before inter-segment adjustment). For FYE 2016 to 2019, between 83.8% and 91.4% of our revenue was derived from Malaysia, with the balance mainly from Singapore. We expect such revenue segmentation to continue in the future;
- (b) During FYE 2016 to 2019, between 66.1% and 74.2% of our cost of sales were incurred from our wholesale channel (before inter-segment adjustment), while the remaining of our cost of sales was incurred from our retail channel, in line with our revenue segmentation. Moving forward, our cost of sales is expected to fluctuate in tandem with our revenue segmentation. Our cost of sales is dependent on amongst others, the availability and price fluctuation of raw material and labour costs; and
- (c) We achieved a GP margin of 32.0%, 30.5%, 30.3% and 30.5% for FYE 2016, FYE 2017, FYE 2018 and FYE 2019 respectively. We hope to maintain our GP margin within the same range in the future. This would depend on, amongst others, our continued ability to manage our costs efficiently and our revenue segmentation in the future.

11. FINANCIAL INFORMATION (Cont'd)

As at LPD, our Board confirms that our operations have not been and are not expected to be affected by any of the following:

- (a) Known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position and operations other than those discussed in Section 11.2;
- (b) Material commitments for capital expenditure, save for those disclosed in Section 11.6.1;
- (c) Unusual, infrequent events or transactions or any significant economic changes that have materially affected our financial performance, position and operations save as discussed in Sections 11.2.1(i), 11.2.1(j), 11.8 and 11.10;
- (d) Known trends, demands, commitments, events or uncertainties that have resulted in a substantial increase in our revenue save for those discussed in Sections 11.2.1(i), 11.2.1(j) and 11.2.2; and
- (e) Known trends, demands, commitments, events or uncertainties that are reasonably likely to make our historical combined financial statements not necessarily indicative of the future financial performance and position other than those discussed in Sections 11.2.1(i) and 11.2.2.

Our growth prospects are correlated to consumer spending, which is influenced by general economic conditions, availability of disposable income, population growth and consumer confidence in our products. Our Board is optimistic of our future prospects given the positive outlook for the bakery products and restaurant and cafeteria/canteen market in Malaysia as set out in the IMR Report, our competitive strengths as set out in Section 7.16 and our business strategies as set out in Section 7.17.

Due to the nature of our business where there are no long term contracts or purchase orders with our customers, we do not have an order book. We manufacture our products to meet our customers purchase requirements on an on-going basis.

11.13 DIVIDEND POLICY

Our Company presently does not have any formal dividend policy. As our Company is an investment holding company, our income and therefore our ability to pay dividends is dependent upon the dividends we receive from our subsidiaries, present or future. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, and consent from the financiers of our Group as set out in the respective facility agreements, there are no legal, financial, or economic restrictions on the ability of our existing subsidiaries to transfer funds in the form of cash dividends, loans or advances to us. Moving forward, the payment of dividends or other distributions by our subsidiaries will depend on their distributable profits, operating results, financial condition, capital expenditure plans, business expansion plans and other factors that their respective boards of directors deem relevant.

The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of our Board and any final dividends for the year are subject to shareholders' approval. It is our intention to pay dividends to shareholders in the future; however, such payments will depend upon a number of factors, including our Group's financial performance, capital expenditure requirements, general financial condition and any other factors considered relevant by our Board.

11. FINANCIAL INFORMATION (Cont'd)

Actual dividends proposed and declared may vary depending on the financial performance and cash flows of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

11.14 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness:

- (a) Based on the latest unaudited financial information as at 30 June 2019; and
- (b) After adjusting for the effects of Acquisitions and Public Issue including the utilisation of proceeds from Public Issue.

	SDSG	I	II	III
	As at 30 June 2019	After Acquisitions	After I and Public Issue	After II and utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
Capitalisation				
Shareholders' equity	(13)	39,702	63,690	60,490
Total capitalisation	(13)	39,702	63,690	60,490
Indebtedness⁽¹⁾				
Current				
Short-term borrowings	-	9,581	9,581	7,241
Bank overdrafts	-	1,284	1,284	1,284
Non-current				
Long-term borrowings	-	39,676	39,676	35,016
Total indebtedness	-	50,541	50,541	43,541
Total capitalisation and indebtedness	(13)	90,243	114,231	104,031
Gearing ratio⁽²⁾(times)	-	1.3	0.8	0.7

Notes:

(1) All of our indebtedness are secured.

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

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12. ACCOUNTANTS' REPORT



Date: **24 JUL 2019**

The Board of Directors
SDS Group Berhad
No. 5, Jalan Selatan 8
Off Jalan Kempas Lama
Kawasan Perusahaan Ringan Pulau
81200 Johor Bahru
Johor

Crowe Malaysia PLT

(LLP0018817-LCA & AF 1018)
Chartered Accountants

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Dear Sirs

REPORTING ACCOUNTANT'S OPINION ON THE FINANCIAL INFORMATION CONTAINED IN THE ACCOUNTANT'S REPORT OF SDS GROUP BERHAD ("THE COMPANY")

OPINION

We have audited the accompanying combined financial statements of the Company and its subsidiaries (collectively known as "the Group"). The combined financial statements comprise:-

- i) The combined financial position as at 31 March 2016, 2017, 2018 and 2019, combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for each of the financial years ended 31 March 2016, 2017, 2018 and 2019;
- ii) Notes to the combined financial statements; and
- iii) A summary of significant accounting policies and other explanatory information, as set out in pages 4 to 116.

This historical financial information has been prepared for inclusion in the Prospectus of SDS Group Berhad to Bursa Malaysia Securities Berhad in connection with the listing and quotation for the entire issued share capital of SDS Group Berhad on the ACE Market of Bursa Securities ("Listing"). This report is required by the *Prospectus Guidelines* issued by the Securities Commission Malaysia (the "Guidelines") and is given for the purpose of complying with Chapter 10.03 of the Guidelines and for no other purpose.

In our opinion, the financial information gives a true and fair view of the financial position of the Group as at 31 March 2016, 2017, 2018 and 2019 and of their financial performance and their cash flows for each of the financial years ended 31 March 2016, 2017, 2018 and 2019 in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

BASIS FOR OPINION

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

Page 1 of 117

Crowe Malaysia PLT (LLP0018817-LCA & AF 1018) was registered on 2 January 2019 and with effect from that date, Crowe Malaysia (AF 1018) which was formerly known as Crowe Horwath (AF 1018), a conventional partnership was converted to a limited liability partnership.

Crowe Malaysia PLT is a member of Crowe Global, a Swiss Verein. Each member firm of Crowe Global is a separate and independent legal entity. Crowe Malaysia PLT and its affiliates are not responsible or liable for any acts or omissions of Crowe Global or any other member of Crowe Global. Crowe Global does not render any professional services and does not have an ownership or partnership interest in Crowe Malaysia PLT.

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12. ACCOUNTANTS' REPORT (Cont'd)



INDEPENDENCE AND OTHER ETHICAL RESPONSIBILITIES

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

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL INFORMATION

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

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

REPORTING ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL INFORMATION

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

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

- Identify and assess the risks of material misstatement of the financial information of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

12. ACCOUNTANTS' REPORT (Cont'd)**REPORTING ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL INFORMATION (CONT'D)**

As a part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also (Cont'd):-

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial information of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of this 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 financial information of the Group, including the disclosures, and whether the financial information of the Group represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

RESTRICTION ON DISTRIBUTION ON USE

We understand that this report will be used solely for the purpose of inclusion in the Prospectus of SDS Group Berhad to Bursa Malaysia Securities Berhad and Securities Commission Malaysia in connection with the Listing. As such, this report should not be used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Crowe Malaysia PLT
LLP0018817-LCA & AF 1018
Chartered Accountants

24 JUL 2019

Johor Bahru

Fong Hiat Keong
03048/06/2021 J
Chartered Accountant

Page 3 of 117

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
COMBINED STATEMENTS OF FINANCIAL POSITION**

		Audited As at 31 March			
	Note	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	5	47,376	95,459	97,596	95,527
Goodwill	6	162	162	162	162
Deferred tax assets	7	22	25	524	1,127
		<u>47,560</u>	<u>95,646</u>	<u>98,282</u>	<u>96,816</u>
CURRENT ASSETS					
Inventories	8	3,462	5,056	4,656	5,203
Trade receivables	9	4,871	7,792	8,968	9,277
Other receivables, deposits and prepayments	10	4,954	6,770	9,455	5,826
Amount owing by directors	11	122	-	-	-
Amount owing by shareholders	12	453	-	-	-
Current tax assets		788	1,166	1,396	998
Fixed deposits with a licensed bank	13	-	140	82	22
Cash and bank balances		2,055	2,675	5,107	6,164
		<u>16,705</u>	<u>23,599</u>	<u>29,664</u>	<u>27,490</u>
Assets classified as held for sale	14	-	-	2,929	-
		<u>16,705</u>	<u>23,599</u>	<u>32,593</u>	<u>27,490</u>
TOTAL ASSETS		<u>64,265</u>	<u>119,245</u>	<u>130,875</u>	<u>124,306</u>

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

		Audited As at 31 March			
	Note	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
EQUITY AND LIABILITIES					
EQUITY					
Share capital	15	2,750	2,750	2,750	2,750
Reserves	16	17,872	22,466	27,814	35,472
Equity attributable to owners of the Company		20,622	25,216	30,564	38,222
Non-controlling interests	17	108	276	427	512
TOTAL EQUITY		20,730	25,492	30,991	38,734
NON-CURRENT LIABILITIES					
Long-term borrowings	18	13,790	33,610	42,808	40,521
Other payable	19	-	7,098	694	502
Deferred tax liabilities	20	990	2,155	2,062	2,112
Contract liability	21	71	74	45	87
		14,851	42,937	45,609	43,222
CURRENT LIABILITIES					
Trade payables	22	13,312	21,866	24,871	25,389
Other payables and accruals	19	3,171	11,836	13,346	7,411
Amount owing to directors	23	453	10	1	-
Short-term borrowings	24	10,944	14,847	15,550	8,792
Bank overdrafts	27	733	2,164	473	458
Contract liability	21	21	29	29	49
Current tax liabilities		50	64	5	251
		28,684	50,816	54,275	42,350
TOTAL LIABILITIES		43,535	93,753	99,884	85,572
TOTAL EQUITY AND LIABILITIES		64,265	119,245	130,875	124,306
Number of ordinary shares ('000)		2,750	2,750	2,750	2,750
Net assets ("NA") (RM'000)		20,730	25,492	30,991	38,734
NA per ordinary shares (RM)		7.54	9.27	11.27	14.09

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME (CONT'D)**

		Audited FYE 31 March			
	Note	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
CONTINUING OPERATIONS					
REVENUE		93,982	139,333	174,201	187,129
COST OF SALES		(63,910)	(96,825)	(121,431)	(130,029)
GROSS PROFIT		30,072	42,508	52,770	57,100
OTHER INCOME		922	2,939	1,438	2,404
ADMINISTRATIVE EXPENSES		(8,124)	(11,076)	(13,435)	(13,283)
SELLING AND DISTRIBUTION EXPENSES		(15,765)	(24,593)	(30,686)	(33,213)
OTHER OPERATING EXPENSES		(891)	(1)	(354)	(534)
FINANCE COSTS		(1,509)	(1,812)	(3,100)	(3,172)
PROFIT BEFORE TAX	28	4,705	7,965	6,633	9,302
INCOME TAX EXPENSE	29	(831)	(1,646)	(743)	(1,448)
PROFIT AFTER TAX FROM CONTINUING OPERATIONS		3,874	6,319	5,890	7,854
DISCONTINUED OPERATION					
LOSS AFTER TAX FROM DISCONTINUED OPERATION	30	(484)	-	-	-
PROFIT AFTER TAX		3,390	6,319	5,890	7,854
OTHER COMPREHENSIVE INCOME/(EXPENSES)	31				
<u>Item that May be Reclassified Subsequently to Profit or Loss</u>					
Foreign currency translation differences		176	196	(91)	39
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		3,566	6,515	5,799	7,893

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME (CONT'D)**

		Audited FYE 31 March			
	Note	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
PROFIT AFTER TAX					
ATTRIBUTABLE TO:-					
Owners of the Company		3,366	6,151	5,739	7,695
Non-controlling interests		24	168	151	159
		<u>3,390</u>	<u>6,319</u>	<u>5,890</u>	<u>7,854</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:-					
Owners of the Company		3,542	6,347	5,648	7,734
Non-controlling interests		24	168	151	159
		<u>3,566</u>	<u>6,515</u>	<u>5,799</u>	<u>7,893</u>
GP Margin (%)		32.0	30.5	30.3	30.5
PBT Margin (%)		5.0	5.7	3.8	5.0
PAT Margin (%)		4.1	4.5	3.4	4.2
Effective tax rate (%)		17.7	20.7	11.2	15.6
Earning before interest, tax, depreciation and amortisation ("EBITDA") (RM'000)		11,918	16,926	19,069	23,605
Number of ordinary shares ('000)		2,750	2,750	2,750	2,750
Basic and diluted earnings/(loss) per share ("EPS") (Sen)	32				
- continuing operations		140.00	223.67	208.69	279.82
- discontinued operation		(17.60)	-	-	-
		<u>122.40</u>	<u>223.67</u>	<u>208.69</u>	<u>279.82</u>

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
COMBINED STATEMENTS OF CHANGES IN EQUITY**

	Note	Share Capital RM'000	Non-Distributable Foreign Exchange Translation Reserve RM'000	Distributable Retained Profits RM'000	Attributable to Owners of the Company RM'000	Non- controlling Interests RM'000	Total Equity RM'000
<u>Audited</u>							
Balance at 1.4.2015		2,750	134	15,511	18,395	84	18,479
Profit after tax for the financial year		-	-	3,366	3,366	24	3,390
Other comprehensive income for the financial year:							
- Foreign currency translation difference		-	176	-	176	-	176
Total comprehensive income for the financial year		-	176	3,366	3,542	24	3,566
Contributions by and distributions to owners of the Company							
- Dividends by the Company	33	-	-	(1,315)	(1,315)	-	(1,315)
Balance at 31.3.2016		2,750	310	17,562	20,622	108	20,730

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
COMBINED STATEMENTS OF CHANGES IN EQUITY (CONT'D)**

	Note	Share Capital RM'000	<u>Non-Distributable</u>		<u>Distributable</u>		Attributable to Owners of the Company RM'000	Non- controlling Interests RM'000	Total Equity RM'000
			Foreign Exchange Translation Reserve RM'000	Retained Profits RM'000	Retained Profits RM'000	Attributable to Owners of the Company RM'000			
<u>Audited</u>									
Balance at 1.4.2016		2,750	310	17,562	20,622	20,622	108	20,730	
Profit after tax for the financial year		-	-	6,151	6,151	6,151	168	6,319	
Other comprehensive income for the financial year:									
- Foreign currency translation difference		-	196	-	196	196	-	196	
Total comprehensive income for the financial year		-	196	6,151	6,347	6,347	168	6,515	
Contributions by and distributions to owners of the Company									
- Dividends by the Company	33	-	-	(1,753)	(1,753)	(1,753)	-	(1,753)	
Balance at 31.3.2017		2,750	506	21,960	25,216	25,216	276	25,492	

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
COMBINED STATEMENTS OF CHANGES IN EQUITY (CONT'D)**

	Note	Share Capital RM'000	<u>Non-Distributable</u>		<u>Distributable</u>		Attributable to Owners of the Company RM'000	Non- controlling Interests RM'000	Total Equity RM'000
			Foreign Exchange Translation Reserve RM'000	Retained Profits RM'000					
<u>Audited</u>									
Balance at 1.4.2017		2,750	506	21,960	25,216	276	25,492		
Profit after tax for the financial year		-	-	5,739	5,739	151	5,890		
Other comprehensive expense for the financial year:									
- Foreign currency translation difference		-	(91)	-	(91)	-	(91)		
Total comprehensive income for the financial year		-	(91)	5,739	5,648	151	5,799		
Contributions by and distributions to owners of the Company									
- Dividends by the Company	33	-	-	(300)	(300)	-	(300)		
Balance at 31.3.2018		2,750	415	27,399	30,564	427	30,991		

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
COMBINED STATEMENTS OF CHANGES IN EQUITY (CONT'D)**

	Note	Share Capital RM'000	<u>Non-Distributable</u>		<u>Distributable</u>		Attributable to Owners of the Company RM'000	Non- controlling Interests RM'000	Total Equity RM'000
			Foreign Exchange Translation Reserve RM'000	Retained Profits RM'000	Retained Profits RM'000	Retained Profits RM'000			
<u>Audited</u>									
Balance at 1.4.2018		2,750	415	27,399	27,399	30,564	427	30,991	
Profit after tax for the financial year		-	-	7,695	7,695	7,695	159	7,854	
Other comprehensive expense for the financial year:									
- Foreign currency translation difference		-	39	-	-	39	-	39	
Total comprehensive income for the financial year		-	39	7,695	7,695	7,734	159	7,893	
Contributions by and distributions to owners of the Company									
- Dividends by the Company	33	-	-	(76)	(76)	(76)	(74)	(150)	
Balance at 31.3.2019		2,750	454	35,018	35,018	38,222	512	38,734	

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
COMBINED STATEMENTS OF CASH FLOW**

		Audited FYE 31 March			
	Note	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(Loss) before tax					
- continuing operations		4,705	7,965	6,633	9,302
- discontinued operation		(563)	-	-	-
		4,142	7,965	6,633	9,302
Adjustments for:-					
Allowance for impairment losses on					
trade receivables		-	-	136	121
Bad debts written off	4	-	-	-	**
Depreciation of property, plant and equipment					
- continuing operations		5,706	7,153	9,347	11,132
- discontinued operation		33	-	-	-
Impairment loss on property, plant and					
equipment					
- continuing operations		-	-	-	273
- discontinued operation		360	-	-	-
Interest expense					
- continuing operations		1,509	1,812	3,100	3,172
- discontinued operation		59	-	-	-
Inventories written off		-	-	59	-
Loss/(Gain) on disposal of marketable securities					
- continuing operations		53	-	-	-
- discontinued operation		(51)	-	-	-
Net loss/(gain) on disposal of property,					
plant and equipment		184	(664)	(1,016)	(128)
Net loss/(gain) on foreign exchange - unrealised					
		52	(19)	(25)	(12)
Property, plant and equipment written off		389	-	31	-
Bad debts recovered		(6)	(3)	-	-
Dividend income from marketable securities		(14)	-	-	-
Gain on bargain purchase		-	(829)	-	-
Gain on disposal of a subsidiary		(354)	-	-	-
Gain on disposal of assets classified as					
held for sale		-	-	-	(1,972)
Imputed interest income		-	(590)	-	-
Interest income		(2)	(4)	(11)	(1)
Reversal of loss on remeasurement to					
fair value less cost of disposal of					
property, plant and equipment		(249)	-	-	-
Operating profit before working capital					
changes/Balance carried forward		11,815	14,821	18,254	21,887

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
COMBINED STATEMENTS OF CASH FLOW (CONT'D)**

	Note	Audited As at 31 March			
		2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Operating profit before working capital changes/Balance brought forward		11,815	14,821	18,254	21,887
(Increase)/Decrease in inventories		(101)	(1,594)	341	(547)
(Increase)/Decrease in trade and other receivables		(2,302)	(3,863)	583	(1,640)
(Increase)/Decrease in amount owing by directors		(84)	122	-	-
Increase in trade and other payables		5,413	12,442	2,241	1,501
Increase/(Decrease) in amount owing to directors		688	(443)	(9)	(1)
Increase/(Decrease) in contract liability		92	11	(29)	62
CASH FROM OPERATIONS		15,521	21,496	21,381	21,262
Income tax paid		(1,026)	(1,760)	(1,847)	(1,949)
Income tax refunded		144	177	224	592
NET CASH FROM OPERATING ACTIVITIES		14,639	19,913	19,758	19,905
CASH FLOWS (FOR)/FROM INVESTING ACTIVITIES					
Acquisition of a subsidiary, net of cash and cash equivalents acquired	34.1	-	(13,330)	-	-
(Advances to)/Repayment from a related party		(831)	831	-	-
Disposal of a subsidiary, net of cash and cash equivalents disposed of	30(c)	1,808	-	-	-
Dividend received from marketable securities		14	-	-	-
Interest received		2	4	11	1
Investment in marketable securities		(1,435)	-	-	-
Proceeds from disposal of marketable securities		871	-	-	-
Proceeds from disposal of assets classified as held for sale		-	-	-	4,900
Proceeds from disposal of property, plant and equipment					
- current financial year		500	845	1,211	223
- previous financial year		-	-	-	4,579
Proceeds from shareholders for disposal of subsidiary in previous financial year		-	453	-	-
Purchase of property, plant and equipment					
- continuing operations	35(a)	(2,505)	(8,539)	(7,376)	(5,700)
- discontinued operation		(1,352)	-	-	-
Withdrawal/(Placement) of pledged fixed deposits with a licensed bank		45	(80)	(2)	82
NET CASH (FOR)/FROM INVESTING ACTIVITIES		(2,883)	(19,816)	(6,156)	4,085

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
COMBINED STATEMENTS OF CASH FLOW (CONT'D)**

		Audited As at 31 March			
	Note	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
CASH FLOWS FOR FINANCING ACTIVITIES					
Dividend paid	33	(1,315)	(1,753)	(300)	(150)
Interest paid		(1,568)	(1,880)	(3,368)	(3,172)
Drawdown of bankers' acceptance	35(b)	15,839	19,454	21,602	14,443
Drawdown of term loans	35(b)	-	7,267	7,670	3,600
Proceeds from issuance of ordinary shares		-	-	*	-
Repayment of bankers' acceptance	35(b)	(16,545)	(17,209)	(21,154)	(21,324)
Repayment of hire purchase obligations	35(b)	(5,095)	(5,538)	(7,057)	(6,066)
Repayment of loan from other payables	35(b)	-	-	(5,009)	(7,108)
Repayment of term loans	35(b)	(1,217)	(1,405)	(1,857)	(3,168)
NET CASH FOR FINANCING ACTIVITIES		(9,901)	(1,064)	(9,473)	(22,945)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS					
		1,855	(967)	4,129	1,045
EFFECT OF FOREIGN EXCHANGE TRANSLATION					
		127	216	(66)	49
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR					
		(660)	1,322	571	4,634
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR					
	35(c)	1,322	571	4,634	5,728

Notes:

* - Represents RM10 only

** - Represents RM332 only

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS****1. ABBREVIATIONS**

Unless the context otherwise requires, the following abbreviations shall apply throughout this report:

Abbreviations

SDSG or Company	SDS Group Berhad (1241117-T)
SDS Group or Group	SDSG, SDS Food, SDS Top Baker, SDS B&C, Daily Bakery, SDS Enterprise, Super Arrow and City Cake, collectively.
SDS Food	SDS Food Manufacturing Sdn. Bhd. (243124-V)
SDS Top Baker	SDS Top Baker Sdn. Bhd. (794534-T)
SDS B&C	SDS Bakery & Cafeteria Sdn. Bhd. (359313-D)
Daily Bakery	Daily Bakery Sdn. Bhd. (190769-H)
SDS Enterprise	SDS Enterprise Sdn. Bhd. (1143371-K)
Super Arrow	Super Arrow Trading Pte. Ltd. (200819157G)
City Cake	City Cake House Sdn. Bhd. (517331-P)
MASB	Malaysian Accounting Standards Board
MFRS	Malaysian Financial Reporting Standards
PERS	Private Entity Reporting Standards
SFRS	Singapore Financial Reporting Standards
SFRSSE	Singapore Financial Reporting Standards for Small Entities
IFRS	International Financial Reporting Standards
FPE	Financial Period Ended
FYE	Financial Year Ended
Shares	Ordinary shares in SDSG
RM and Sen	Ringgit Malaysia and Sen, respectively
SGD	Singapore Dollar
USD	United States Dollar
CA 2016	Companies Act 2016

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****2. GENERAL INFORMATION****2.1 INCORPORATION AND PRINCIPAL ACTIVITIES**

SDSG was incorporated in Malaysia under the Companies Act 2016, on 1 August 2017 as a public limited company under the name of SDS Group Berhad.

For the purpose of listing the Company on the ACE Market of Bursa Malaysia Securities Berhad, the Company undertook a restructuring exercise via the acquisition of subsidiaries as disclosed in Note 2.2 to the combined financial statements.

Details of the subsidiaries upon listing are as follows:-

Name of subsidiaries	Date and place of incorporation	Effective equity interest %	Issued share capital	Principal activities
<i>Direct</i>				
SDS Food	25 June 1992 Malaysia	100	RM3,195,200	Manufacturing and distributing of bakery products
SDS Enterprise	6 May 2015 Malaysia	100	RM2	Licensor of F&B outlets
Super Arrow	1 October 2008 Singapore	100	SGD100	Wholesale of bakery products in Singapore
<i>Indirect - held through SDS Food</i>				
SDS Top Baker	5 November 2007 Malaysia	100	RM4,000,000	Manufacturing and distributing of bakery products
SDS B&C	13 September 1995 Malaysia	100	RM1,700,000	Operator of F&B outlets
Daily Bakery	12 December 1989 Malaysia	100	RM5,000,000	Manufacturing and distributing of bakery products
<i>Indirect - held through SDS B&C</i>				
City Cake	19 June 2000 Malaysia	51	RM122,450	Operator of F&B outlet

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****2. GENERAL INFORMATION (CONT'D)****2.2 RESTRUCTURING EXERCISE**

SDS B&C has entered into a conditional Share Sales Agreement on 21 September 2018 to acquire 51% of equity interest in City Cake for a purchase consideration of RM445,200 to be satisfied by the issuance of 42,890 shares in SDS Food at an issue price of RM10.38 per share. The acquisition was completed on 4 July 2019 and consolidated using merger method.

Subsequently, the Company entered into three (3) conditional Share Sales Agreements on 21 September 2018 to acquire the equity interests in the following companies:-

- (i) Acquisition of the entire equity interest in SDS Food for a purchase consideration of RM28,994,890 after taking into consideration the acquisition of 51% equity interest in City Cake, to be satisfied by the issuance of 285,752,600 shares in the Company at an issue price of approximately RM0.10 per Share.
- (ii) Acquisition of the entire equity interest in SDS Enterprise for a purchase consideration of RM26,360 to be satisfied by the issuance of 263,600 shares in the Company at an issue price of RM0.10 per Share.
- (iii) Acquisition of the entire equity interest in Super Arrow for a purchase consideration of RM1,551,080 to be satisfied by the issuance of 15,510,800 shares in the Company at an issue price of RM0.10 per Share.

The acquisitions of the above companies were completed on 5 July 2019 and consolidated using merger method.

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12. ACCOUNTANTS' REPORT (Cont'd)

**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**
2. GENERAL INFORMATION (CONT'D)
2.3 LISTING SCHEME

In conjunction with and as an integral part of the listing of and quotation for the entire issued share capital of SDSG on the ACE Market of Bursa Securities ("the Listing Scheme"), SDSG will implement the following:-

(i) Public Issue

The Public Issue of 104,296,800 new Shares, representing approximately 25.7% of the enlarged share capital of SDSG at an issue price of RM0.23 per Share to be allocated in the following manner:

- 20,291,200 new Shares available for application by the Malaysian Public;
- 23,132,000 new Shares available for application by eligible directors, employees and business associates/persons who have contributed to the success of the Group; and
- 60,873,600 new Shares available for application by way of private placement to selected investors.

(ii) Listing

The admission of the listing of and quotation for the entire enlarged issued and paid-up share capital of RM54,560,604 comprising 405,823,900 Shares on the ACE Market of Bursa Securities will be sought.

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****2. GENERAL INFORMATION (CONT'D)****2.4 SHARE CAPITAL**

As at the date of this report, the share capital of SDSG is RM30,572,340 comprising 301,527,100 shares.

The details of the changes in the issued share capital of SDSG since its incorporation are as follows:-

Date of allotment	No. of shares allocated	Cumulative no. of shares allotted	Consideration	Cumulative issued and paid-up share capital RM
1 August 2017	100	100	Cash	10
5 July 2019	285,752,600	285,752,700	Acquisition of SDS Food	28,994,900
	263,600	286,016,300	Acquisition of SDS Enterprise	29,021,260
	15,510,800	301,527,100	Acquisition of Super Arrow	30,572,340
Upon listing	104,296,800	405,823,900	Public issue	54,560,604

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****3. DIVIDEND**

No dividend has been declared by SDSG since the date of its incorporation.

Details of dividends paid by the subsidiary companies during the financial years under review are as follows:-

Company	Related to	Paid on	Type of dividend	Dividend rate (RM/share)	Net Amount (RM'000)
SDS Food	FYE 31 March 2016	6 January 2016	Interim dividend	0.16	440
Super Arrow	FYE 31 March 2016	13 April 2015	First interim dividend	3,501.00	350
Super Arrow	FYE 31 March 2016	3 March 2016 22 March 2016	Second interim dividend	5,251.50	525
Daily Bakery	FYE 31 March 2017	21 March 2017	Interim dividend	0.30	1,000
SDS Top Baker	FYE 31 March 2017	24 March 2017	Interim dividend	0.50	500
Super Arrow	FYE 31 March 2017	6 October 2016 1 November 2016 10 November 2016 18 November 2016 4 January 2017	First interim dividend	6,478.49	648
Super Arrow	FYE 31 March 2017	13 October 2016 19 October 2016 26 October 2016 1 November 2016	Second interim dividend	7,393.10	739
Super Arrow	FYE 31 March 2017	23 March 2017 28 March 2017 30 March 2017	Third interim dividend	3,658.44	366
Daily Bakery	FYE 31 March 2018	8 May 2017	First interim dividend	89.55	3,000
Daily Bakery	FYE 31 March 2018	17 May 2017	Second interim dividend	29.85	1,000
SDS Food	FYE 31 March 2018	7 June 2017	Interim dividend	0.11	300
SDS Top Baker	FYE 31 March 2018	5 January 2018	Interim dividend	1.00	4,000
Daily Bakery	FYE 31 March 2019	10 April 2018	Interim dividend	1.49	5,000
City Cake	FYE 31 March 2019	29 June 2018	Interim dividend	1.22	150

12. ACCOUNTANTS' REPORT (Cont'd)

**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES****4.1 BASIS OF PREPARATION**

For the purposes of inclusion of combined financial statements in the Prospectus of SDS Group Berhad in connection with the Listing, the combined financial statements comprise the combined statements of financial position as at 31 March 2016, 2017, 2018 and 2019, combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the financial years ended 31 March 2016, 2017, 2018 and 2019.

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

The combined financial statements of the Group for the relevant period were prepared in a manner similar to the merger method, as if the entities within the Group were operating as a single economic enterprise from the beginning of the earliest comparative period covered by the relevant period or the dates of incorporation of entities within the Group, if later. Such manner of presentation reflects the economic substance of the combining companies, which were under common control throughout the relevant period.

The identifiable assets and liabilities of all commonly controlled entities are accounted for at their historical costs. The accounting policies of common controlled entities have been changed where necessary to align them with the policies adopted by the Group.

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.1 BASIS OF PREPARATION (CON'T'D)**

These combined financial statements of the Group are the combination or aggregation of all of the financial statements of the entities of the Group and have been prepared based on the separate financial statements for the relevant financial years as follows:

Company	Relevant financial years/periods	Accounting standards applied	Auditors
SDSG	FPE from 1 August 2017 (date of incorporation) to 31 March 2018	MFRS	Crowe Malaysia PLT
	FYE 31 March 2019	MFRS	Crowe Malaysia PLT
SDS Food	FYE 31 March 2016	PERS	Crowe Malaysia PLT
	FYE 31 March 2017	MFRS	Crowe Malaysia PLT
	FYE 31 March 2018	MFRS	Crowe Malaysia PLT
	FYE 31 March 2019	MFRS	Crowe Malaysia PLT
SDS Top Baker	FYE 31 March 2016	PERS	Crowe Malaysia PLT
	FYE 31 March 2017	MFRS	Crowe Malaysia PLT
	FYE 31 March 2018	MFRS	Crowe Malaysia PLT
	FYE 31 March 2019	MFRS	Crowe Malaysia PLT
SDS B&C	FYE 31 March 2016	PERS	Crowe Malaysia PLT
	FYE 31 March 2017	MFRS	Crowe Malaysia PLT
	FYE 31 March 2018	MFRS	Crowe Malaysia PLT
	FYE 31 March 2019	MFRS	Crowe Malaysia PLT
Daily Bakery	FPE 31 March 2017	MFRS	Crowe Malaysia PLT
	FYE 31 March 2018	MFRS	Crowe Malaysia PLT
	FYE 31 March 2019	MFRS	Crowe Malaysia PLT
SDS Enterprise	FPE from 6 May 2015 (date of incorporation) to 31 March 2016	MFRS	Crowe Malaysia PLT
	FYE 31 March 2017	MFRS	Crowe Malaysia PLT
	FYE 31 March 2018	MFRS	Crowe Malaysia PLT
	FYE 31 March 2019	MFRS	Crowe Malaysia PLT
City Cake	FYE 31 March 2016	PERS	Crowe Malaysia PLT
	FYE 31 March 2017	MFRS	Crowe Malaysia PLT
	FYE 31 March 2018	MFRS	Crowe Malaysia PLT
	FYE 31 March 2019	MFRS	Crowe Malaysia PLT

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.1 BASIS OF PREPARATION (CON'T'D)**

These combined financial statements of the Group are the combination or aggregation of all of the financial statements of the entities of the Group and have been prepared based on the separate financial statements for the relevant financial years as follows (Cont'd):

Company	Relevant financial years/periods	Accounting standards applied	Auditors
Super Arrow	FYE 31 March 2016	SFRSSE	TY Teoh International
	FYE 31 March 2017	SFRS	Crowe Horwath First Trust LLP
	FYE 31 March 2018	SFRS	Crowe Horwath First Trust LLP
	FYE 31 March 2019	SFRS	Crowe Horwath First Trust LLP

The separate statutory audited financial statements of SDSG, SDS Food, SDS Top Baker, SDS B&C, Daily Bakery, SDS Enterprise, Super Arrow and City Cake were not subject to any modified audit opinions.

The separate statutory audited financial statements of Daily Bakery from 1 March 2016 to 31 March 2017 were realigned to 1 April 2016 to 31 March 2017 for the purpose of these combined financial statements to be coterminous with the financial year end of the Group.

Likewise, the separate statutory audited financial statements of SDS Enterprise from 6 May 2015 (date of incorporation) to 31 May 2016 and from 1 June 2016 to 31 March 2017 were realigned to 6 May 2015 (date of incorporation) to 31 March 2016 and 1 April 2016 to 31 March 2017 for the purpose of these combined financial statements to be coterminous with the financial year end of the Group.

The separate statutory audited financial statements of Super Arrow for the FYE 31 March 2016, 2017, 2018 and 2019 have been prepared in accordance with SFRSSE and SFRS. There is no significant difference between MFRS and SFRSSE/SFRS in the context of Super Arrow's financial statements for the above mentioned financial years and neither adjustment is required or reconciliation is presented for the financial statements under these accounting standards.

All material intra-group transactions and balances have been eliminated on combination.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.1 BASIS OF PREPARATION (CON'T'D)**

In preparing this report, the financial information of Super Arrow was translated into RM for information purposes.

The exchange rates used for the purpose of this report are as follows:-

FYE	Average Rate
31 March 2016	SGD 1 = RM2.9175
31 March 2017	SGD 1 = RM3.0487
31 March 2018	SGD 1 = RM3.0646
31 March 2019	SGD 1 = RM3.0083

FYE	Closing Rate
31 March 2016	SGD 1 = RM2.8976
31 March 2017	SGD 1 = RM3.1643
31 March 2018	SGD 1 = RM2.9494
31 March 2019	SGD 1 = RM3.0142

(Source: Bank Negara Malaysia)

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.2 NEW MFRSS, AMENDMENT TO MFRSS AND IC INTERPRETATIONS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE**

The Group has not applied in advance the following applicable accounting standards and/or Interpretations (including the consequential amendments, if any) that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective for the current financial year:-

MFRSs and/or IC Interpretations (Including The Consequential Amendments)	Effective Date
MFRS 16 Leases	1 January 2019
IC Interpretation 23 Uncertainty Over Income Tax Treatments	1 January 2019
Amendments to MFRS 3: Definition of a Business	1 January 2020
Amendments to MFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 101 and MFRS 108: Definition of Material	1 January 2020
Amendments to References to the Conceptual Framework in MFRS Standards	1 January 2020
Annual Improvements to MFRS Standards 2015 – 2017 Cycles	1 January 2019

The adoption of the above applicable accounting standards and/or interpretations (including the consequential amendments, if any) is expected to have no material impact on the combined financial statements of the Group upon their initial application except as follows:-

MFRS 16 Leases

MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and will replace the current guidance on lease accounting when it becomes effective. Under MFRS 16, the classification of leases as either finance leases or operating leases is eliminated for lessees. All lessees are required to recognise their leased assets and the related lease obligations in the combined statements of financial position (with limited exceptions). The leased assets are subject to depreciation and the interest on lease liabilities are calculated using the effective interest method.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.2 NEW MFRSS, AMENDMENT TO MFRSS AND IC INTERPRETATIONS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE (CONT'D)*****MFRS 16 Leases (Cont'd)***

Based on the assessment completed to date, the potential impacts on the combined financial statements of the Group upon its initial application are summarised below:-

	At 1 April 2019	
	RM'000	RM'000
<i>Combined Statements of Financial Position</i>		
Retained profits		
- Rental expenses previously recognised in profit or loss under MFRS 117		5,897
- Depreciation of right-of-use asset under MFRS 16	5,329	
- Interest expense on lease liabilities under MFRS 16	877	
- Deferred tax income for temporary differences	(75)	6,131
		<u>(234)</u>

The Group is permitted under the practical expedient not to reassess whether a contract is, or contains, a lease at the date of initial application and the Group is permitted to apply MFRS 16 to contracts that were previously identified as leases applying MFRS 117.

As allowed by the transitional provisions of MFRS 16, the Group will not restate comparative information. Instead, the Group recognises the cumulative effect as a transitional adjustment to the opening balance of retained profits (or other component of equity, as appropriate) as at 1 April 2019 (i.e. date of initial application of MFRS 16).

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.2 NEW MFRSS, AMENDMENT TO MFRSS AND IC INTERPRETATIONS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE (CONT'D)****MFRS 16 Leases (Cont'd)**

The expected impacts from the initial application of MFRS 16 in the next financial year (other than those disclosed above) are as below:-

	As Reported At 31 March 2019 RM'000	Estimated Transition Adjustments RM'000	Estimated Adjusted Opening Balance At 1 April 2019 RM'000
<i>Combined Statements of Financial Position</i>			
ASSETS			
NON-CURRENT ASSETS			
Right-of-use asset	-	13,156	13,156
Deferred tax assets	1,127	75	1,202
EQUITY AND LIABILITIES			
EQUITY			
Retained profits	35,018	(234)	34,784
NON-CURRENT LIABILITIES			
Lease liabilities	-	9,759	9,759
CURRENT LIABILITIES			
Lease liabilities	-	3,706	3,706

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12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
4.3 SIGNIFICANT ACCOUNTING POLICIES
(i) Critical Accounting Estimates and Judgements
Key Sources of Estimation Uncertainty

Management believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year other than as disclosed below:-

(a) Depreciation of Property, Plant and Equipment

The estimates for the residual values, useful lives and related depreciation charges for the property, plant and equipment are based on commercial factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions. The Group anticipates that the residual values of its property, plant and equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amount of property, plant and equipment as at the reporting date is disclosed in Note 5 to the financial statements.

(b) Impairment of Goodwill

The assessment of whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at the reporting date is disclosed in Note 6 to the combined financial statements.

(c) Write-down of Inventories

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories. The carrying amount of inventories as at the reporting date is disclosed in Note 8 to the combined financial statements.

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
(i) Critical Accounting Estimates and Judgements (Cont'd)
Key Sources of Estimation Uncertainty (Cont'd)

Management believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year other than as disclosed below (Cont'd):-

(d) Income Taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax expense and deferred tax balances in the period in which such determination is made.

(e) Deferred Tax Assets

Deferred tax assets are recognised for all unabsorbed capital allowances and reinvestment allowance to the extent that it is probable that future taxable profits would be available against which the unabsorbed capital allowances and reinvestment allowance could be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the assessment of the probability of the future taxable profits. The carrying amount of deferred tax assets as at the reporting date is disclosed in Note 7 to the combined financial statements.

Critical Judgements Made in Applying Accounting Policies

Management believes that there are no instances of application of critical judgement in applying the Group's accounting policies which will have a significant effect on the amounts recognised in the combined financial statements other than as disclosed below:-

Fair Value Estimates for Certain Financial Assets and Financial Liabilities

The Group carries certain financial assets and financial liabilities at fair value, which requires extensive use of accounting estimates and judgement. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group uses different valuation methodologies. Any changes in fair value of these assets and liabilities would affect profit and/or equity.

12. ACCOUNTANTS' REPORT *(Cont'd)*

SDS GROUP BERHAD NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(ii) Basis of Combination

The Group resulting from the restructuring exercise, as disclosed in Note 2.2 above, comprises entities under common control. Accordingly, the combined financial statements have been accounted for using principles of merger accounting.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Intragroup transactions, balances, income and expenses are eliminated on combination. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

(a) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Under the acquisition method, the consideration transferred for acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs, other than the costs to issue debt or equity securities, are recognised in profit or loss when incurred.

In a business combination achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Non-controlling interests in the acquiree may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets at the date of acquisition. The choice of measurement basis is made on a transaction-by-transaction basis.

However, an acquisition that resulted in a business combination involving common control entities is outside the scope of MFRS 3 Business Combinations. For such common control combinations, the merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the audited combined financial statements.

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
(ii) Basis of Combination (Cont'd)
(a) Business Combinations (Cont'd)

In applying merger accounting, financial statements items of the combining entities or businesses for the reporting period in which common control combination occurs are included in the audited combined financial statements of the Group as if the combination had occurred from the date when the combining entities or businesses first come under the control of the controlling party or parties. Under merger accounting, the Group recognises the assets, liabilities and equity of the combining entities or businesses at the carrying amount as if such audited combined financial statements had been prepared by the controlling party including adjustments required for conforming to the Groups' accounting policies and applying those policies to all period presented. There is no recognition of any goodwill or gain from bargain purchase at the time of the common control combination. The effect of all transactions and balances between combining entities, whether occurring before or after the combination, are eliminated in preparing the audited combined financial statements of the Group.

(b) Non-controlling Interests

Non-controlling interests are presented within equity in the combined statements of financial position, separately from the equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(c) Changes in Ownership Interests in Subsidiaries Without Change of Control

All changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in equity of the Group.

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(ii) Basis of Combination (Cont'd)

(d) Loss of Control

Upon the loss of control of a subsidiary, the Group recognises any gain or loss on disposal in profit or loss which is calculated as the difference between:-

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest in the former subsidiary; and
- (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the former subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the former subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to retained profits). The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 139 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

As part of its transition to MFRSs, the Group elected not to restate those business combinations that occurred before the date of transition, 1 April 2015. Such business combinations and the related goodwill and fair value adjustments have been carried forward from the previous PERSs framework as at the date of transition.

(iii) Goodwill

Goodwill is measured at cost less accumulated impairment losses, if any. The carrying value of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. The impairment value of goodwill is recognised immediately in profit or loss. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Under the acquisition method, any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interests recognised and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities at the date of acquisition is recorded as goodwill.

Where the latter amount exceeds the former, after reassessment, the excess represents a bargain purchase gain and is recognised in profit or loss immediately.

12. ACCOUNTANTS' REPORT (*Cont'd*)

SDS GROUP BERHAD NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(iv) Functional and Foreign Currencies

(a) Functional and Presentation Currency

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates, which is the functional currency.

The combined financial statements are presented in Ringgit Malaysia ("RM"), which is the Group's functional and presentation currency and has been rounded to the nearest thousand, unless otherwise stated.

(b) Foreign Currency Transactions and Balances

Transactions in foreign currencies are converted into the respective functional currencies on initial recognition, using the exchange rates at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the exchange rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are recognised in profit or loss.

(c) Foreign Operations

Assets and liabilities of foreign operations (including any goodwill and fair value adjustments arising on acquisition) are translated to the Group's presentation currency at the exchange rates at the end of the reporting period. Income, expenses and other comprehensive income of foreign operations are translated at exchange rates at the dates of the transactions. All exchange differences arising from translation are taken directly to other comprehensive income and accumulated in equity; attributed to the owners of the Company and non-controlling interests, as appropriate.

Goodwill and fair value adjustments arising from the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated at the closing rate at the end of the reporting period.

(v) Financial Instruments

Financial assets and financial liabilities are recognised in the combined statements of financial position when the Group has become a party to the contractual provisions of the instruments.

12. ACCOUNTANTS' REPORT (*Cont'd*)

SDS GROUP BERHAD NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) Financial Instruments (*Cont'd*)

Financial instruments are classified as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and their definitions in MFRS 132. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially at its fair value (other than trade receivables without significant financing component which are measured at transaction price as defined in MFRS 15 – Revenue from Contracts with Customers at inception). Transaction costs that are directly attributable to the acquisition or issue of the financial instrument (other than a financial instrument at fair value through profit or loss) are added to/deducted from the fair value on initial recognition, as appropriate. Transaction costs on the financial instrument at fair value through profit or loss are recognised immediately in profit or loss. Fair value adjustments on amount owing to a supplier for financing the Group to purchase plant and machinery at initial recognition are added to the carrying value of the other payables in the combined financial statements of the Group.

Financial instruments recognised in the combined statements of financial position are disclosed in the individual policy statement associated with each item.

(a) Financial Assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value (through profit or loss, or other comprehensive income), depending on the classification of the financial assets.

Debt Instruments

(i) Amortised Cost

The financial asset is held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. When the asset has subsequently become credit-impaired, the interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset.

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
(v) Financial Instruments (Cont'd)
(a) Financial Assets (Cont'd)
Debt Instruments (Cont'd)
(i) Amortised Cost (Cont'd)

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding expected credit losses, through the expected life of the financial asset or a shorter period (where appropriate).

(ii) Fair Value through Other Comprehensive Income

The financial asset is held for both collecting contractual cash flows and selling the financial asset, where the asset's cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through other comprehensive income and accumulated in the fair value reserve, except for the recognition of impairment, interest income and foreign exchange difference which are recognised directly in profit or loss. Interest income is calculated using the effective interest rate method.

(iii) Fair Value through Profit or Loss

All other financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

The Group reclassifies debt instruments when and only when its business model for managing those assets change.

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
(v) Financial Instruments (Cont'd)
(a) Financial Assets (Cont'd)
Equity Instruments

All equity investments are subsequently measured at fair value with gains and losses recognised in profit or loss except where the Group has elected to present the subsequent changes in fair value in other comprehensive income and accumulated in the fair value reserve at initial recognition.

The designation at fair value through other comprehensive income is not permitted if the equity investment is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise.

Dividend income from this category of financial assets is recognised in profit or loss when the Group's right to receive payment is established unless the dividends clearly represent a recovery of part of the cost of the equity investments.

(b) Financial Liabilities
(i) Financial Liabilities at Fair Value through Profit or Loss

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. The changes in fair value of these financial liabilities are recognised in profit or loss.

(ii) Other Financial Liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability or a shorter period (where appropriate).

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
(v) Financial Instruments (Cont'd)
(c) Equity Instruments

Equity instruments classified as equity are measured initially at cost and are not remeasured subsequently. Ordinary shares are classified as equity and recorded at the proceeds received, net of directly attributable transaction costs. Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

(d) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the carrying amount of the asset and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of a debt instrument classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified from equity to profit or loss. In contrast, there is no subsequent reclassification of the fair value reserve to profit or loss following the derecognition of an equity investment.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(v) Financial Instruments (Cont'd)**Accounting Policies Applied Until 31 March 2018

As disclosed in Note 43 to the financial statements, the Group has applied MFRS 9 retrospectively with cumulative financial impacts recognised in the opening combined statements of financial position on 1 April 2018 (date of initial application of MFRS 9) and hence, the comparative information of its financial instruments is not restated. As a result, the comparative information of the Group's financial assets continues to be accounted for in accordance with the previous accounting policies as summarised below:-

- Unquoted trade receivables and other receivables with fixed or determinable payments were classified as loans and receivables financial assets, measured at amortised cost using the effective interest method, less any impairment loss. Interest income was recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.
- Non-derivative financial assets with fixed or determinable payments and fixed maturities that the management had the positive intention and ability to hold to maturity were classified as held-to-maturity. The held-to-maturity investments were measured at amortised cost using the effective interest method less any impairment loss, with interest income recognised in profit or loss on an effective yield basis.

(vi) Property, Plant and Equipment

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that are directly attributable to the acquisition of the asset and other costs directly attributable to bringing the asset to working condition for its intended use.

Subsequent to initial recognition, all property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation and any impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(vi) Property, Plant and Equipment (Cont'd)**

Freehold land is not depreciated. Depreciation on other property, plant and equipment is charged to profit or loss (unless it is included in the carrying amount of another asset) on the straight-line method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset become idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:-

Leasehold land	Over the remaining lease period
Buildings	2%
Motor vehicles	8.33% - 20%
Office equipment, furniture and renovation	10% - 20%
Plant, machinery and factory equipment	5% - 20%

Construction in progress included in property, plant and equipment is not depreciated as it is not yet available for use.

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment. Any changes are accounted for as a change in estimate.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset, being the different between the net disposal proceeds and the carrying amount, is recognised in profit or loss.

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12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
(vii) Impairment
(a) Impairment of Financial Assets

The Group recognises a loss allowance for expected credit losses on investment in debt instruments that are measured at amortised cost or at fair value through other comprehensive income.

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group always recognises lifetime expected credit losses for trade receivables using the simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit losses experienced and last financial year's ageing profile of current financial year's outstanding balances and are adjusted for forward-looking information (including time value of money where appropriate).

For all other financial instruments, the Group recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at fair value through other comprehensive income, for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve, and does not reduce the carrying amount of the financial asset in the combined statements of financial position.

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(vii) Impairment (Cont'd)

(a) Impairment of Financial Assets (Cont'd)

Accounting Policy Applied Until 31 March 2018

As disclosed in Note 43 to the financial statements, the Group has applied MFRS 9 retrospectively with cumulative financial impacts recognised in the opening combined statements of financial position on 1 April 2018 (date of initial application of MFRS 9) and hence, the comparative information of its financial instruments is not restated. As a result, the comparative information on the impairment of the Group's financial assets has been accounted for in accordance with the previous accounting policy as summarised below:-

- The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset (or group of financial assets) was impaired. Impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event(s) had an impact on the estimated future cash flows of the financial asset (or group of financial assets) that could be reliably estimated.

(b) Impairment of Non-Financial Assets

The carrying values of assets, other than those to which MFRS 136 - Impairment of Assets does not apply, are reviewed at the end of each reporting period for impairment when an annual impairment assessment is compulsory or there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. When the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount and an impairment loss shall be recognised. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value-in-use, which is measured by reference to discounted future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs.

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
(vii) Impairment (Cont'd)
(b) Impairment of Non-Financial Assets (Cont'd)

An impairment loss is recognised in profit or loss immediately.

In respect of assets other than goodwill, and when there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately.

(viii) Leased Assets
(a) Finance Lease

A lease is recognised as a finance lease if it transfers substantially to the Group all the risks and rewards incidental to ownership. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The corresponding liability is included in the combined statements of financial position as hire purchase payables.

Minimum lease payments made under finance leases are apportioned between the finance costs and the reduction of the outstanding liability. The finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are recognised in profit or loss and allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each accounting period.

Leasehold land which in substance is a finance lease is classified as property, plant and equipment.

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(viii) Leased Assets (Cont'd)

(b) Operating Lease

All leases that do not transfer substantially to the Group all the risks and rewards incidental to ownership are classified as operating leases and, the leased assets are not recognised on the Group's combined statements of financial position.

Payments made under operating leases are recognised as an expense in profit or loss on a straight-line method over the term of the lease. Lease incentives received are recognised as a reduction of rental expense over the lease term on a straight-line method. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

(ix) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of raw materials is determined on the first-in, first-out method and comprises the purchase price, production or conversion costs and incidentals incurred in bringing the inventories to their present location and condition. Cost of finished goods includes cost of materials, labour and an appropriate proportion of production overheads.

Net realisable value represents the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

(x) Non-Current Assets Held for Sale and Discontinued Operations

Non-current assets (or disposal group comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the non-current assets (or the disposal group) are remeasured in accordance with the Group's accounting policies. Upon classification as held for sale, the non-current assets (the disposal group) are not depreciated and are measured at the lower of their previous carrying amount and fair value less cost to sell. Any differences are recognised in profit or loss.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is restated as if the operation had been discontinued from the start of the comparative period.

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
(xi) Contract Liability

A contract liability is stated at cost and represents the obligation of the Group to transfer goods or services to a customer for which consideration has been received (or the amount is due) from the customers.

(xii) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances and demand deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value with original maturity periods of three months or less. For the purpose of the combined statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and fixed deposits pledged to a licensed bank.

(xiii) Employee Benefits
(a) Short-term Benefits

Wages, salaries, paid annual leave and bonuses are measured on an undiscounted basis and are recognised in profit or loss in the period in which the associated services are rendered by employees of the Group.

(b) Defined Contribution Plans

The Group's contributions to defined contribution plans are recognised in profit or loss in the period to which they relate. Once the contributions have been paid, the Group has no further liability in respect of the defined contribution plans.

(xiv) Income Taxes
(a) Current Tax

Current tax assets and liabilities are expected amount of income tax recoverable or payable to the taxation authorities.

Current taxes are measured using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period and 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).

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
(xiv) Income Taxes (Cont'd)
(b) Deferred Tax

Deferred tax are recognised using the liability method for all temporary differences other than those that arise from goodwill or from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Current and deferred tax items are recognised in correlation to the underlying transactions either in profit or loss, other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill or negative goodwill.

Current tax assets and liabilities or deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity (or on different tax entities but they intend to settle current tax assets and liabilities on a net basis) and the same taxation authority.

(c) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of GST except for the GST in a purchases of assets or services which are not recoverable from the taxation authorities, the GST are included as part of the costs of the assets acquired or as part of the expense item whichever is applicable.

In addition, receivables and payables are also stated with the amount of GST included (where applicable).

The net amount of the GST recoverable from or payable to the taxation authorities at the end of the reporting period is included in other receivables or other payables.

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(xiv) Income Taxes (Cont'd)

(c) Goods and Services Tax ("GST") (Cont'd)

The Malaysia Government has zero rated the GST effective from 1 June 2018. This means the GST rate on supplying of goods or services or on the importation of goods has been revised from 6% to 0%.

The GST was replaced with the Sales and Service Tax effective from 1 September 2018. The rate for sale tax is fixed at 5% or 10%, while the rate for service tax is fixed at 6%.

(d) Sales and Service Tax ("SST")

Revenues, expenses and assets are recognised net of SST.

The amount of SST incurred in a purchase of assets or services obtained is not recoverable from the taxation authority and is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The amount of the SST payable to the taxation authority at the end of the reporting period is included in other payables.

(xv) Contingent Liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the combined financial statements, unless the probability of outflow of economic benefits is remote. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(xvi) Operating Segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

12. ACCOUNTANTS' REPORT *(Cont'd)*

SDS GROUP BERHAD NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(xvii) Earnings Per Ordinary Shares

Basic earnings per ordinary share is calculated by dividing the combined profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for own shares held.

Diluted earnings per ordinary share is determined by adjusting the combined profit or loss attributable to ordinary shareholders of the Group and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

(xviii) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of those assets, until such time as the assets are ready for their intended use or sale. The capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted.

All other borrowing costs are recognised in profit or loss as expenses in the period in which they incurred.

(xix) Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using a valuation technique. The measurement assumes that the transaction takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial reporting purposes, the fair value measurements are analysed into level 1 to level 3 as follows:-

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liability that the entity can access at the measurement date;
- Level 2: Inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Inputs are unobservable inputs for the asset or liability.

The transfer of fair value between levels is determined as of the date of the event or change in circumstances that caused the transfer.

12. ACCOUNTANTS' REPORT *(Cont'd)*

SDS GROUP BERHAD NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(xx) Revenue from Contract with Customers

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with customer. Revenue from contracts with customers is measured at its transaction price, being the amount of consideration which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, net of sales and service tax, returns, rebates and discounts.

The Group recognises revenue when (or as) it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of that asset.

Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time. The Group transfers control of a good or service at a point in time unless one of the following overtime criteria is met:-

- The customer simultaneously receives and consumes the benefits provided as the Group performs.
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

(a) Sale of Goods with Cash Terms

Revenue from sale of goods is recognised when the Group has transferred control of the goods to the customer, being at the point when the customer purchases the goods at the retail outlet. Payment for the transaction is due immediately at the point when the customer purchases the goods and takes delivery at the retail outlet.

(b) Sale of Goods with Credit Terms

Revenue from sale of goods is recognised when the Group has transferred control of the goods to the customer, being when the goods have been delivered to the customer and upon its acceptance.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
4. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
4.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)
(xx) Revenue from Contract with Customers (Cont'd)
(c) Rendering of licensing services

Revenue from providing licensing services is recognised over time in the period in which the services are rendered. As a practical expedient, the Group recognises revenue on a straight-line method over the period of service.

(d) Rendering of outlet management and consultancy services

Revenue from providing outlet management and consultancy services is recognised at a point in time.

Customers are invoiced on a monthly basis and consideration is payable when invoiced.

(xxi) Other Operating Income
(a) Interest Income

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

(b) Rental Income

Rental income is accounted for on a straight-line method over the lease term.

(c) Dividend Income

Dividend income from investment is recognised when the right to receive dividend payment is established.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****5. PROPERTY, PLANT AND EQUIPMENT**

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Office equipment, furniture and renovation RM'000	Plant, machinery and factory equipment RM'000	Construction in progress RM'000	Total RM'000
<i>Carrying Amount</i>								
At 1 April 2015	5,237	499	11,298	7,348	6,229	16,575	-	47,186
Additions	-	-	122	4,297	1,481	1,069	-	6,969
Disposals	-	-	-	(565)	(7)	(112)	-	(684)
Written off	-	-	-	(7)	(365)	(17)	-	(389)
Translation difference	-	-	-	-	*	-	-	*
Depreciation charges	-	-	(268)	(2,357)	(1,078)	(2,003)	-	(5,706)
At 31 March 2016	5,237	499	11,152	8,716	6,260	15,512	-	47,376
At 1 April 2016	5,237	499	11,152	8,716	6,260	15,512	-	47,376
Additions	-	-	600	6,054	3,283	14,054	-	23,991
Disposals	-	-	-	(99)	-	(82)	-	(181)
Acquisition of a subsidiary (Note 34.1(a))	17,990	-	1,110	134	1,015	253	10,924	31,426
Reclassification	141	-	9,230	-	-	1,553	(10,924)	-
Translation difference	-	-	-	-	*	-	-	*
Depreciation charges	-	(7)	(301)	(3,162)	(1,475)	(2,208)	-	(7,153)
At 31 March 2017	23,368	492	21,791	11,643	9,083	29,082	-	95,459

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Office equipment, furniture and renovation RM'000	Plant, machinery and factory equipment RM'000	Total RM'000
<i>Carrying Amount</i>							
At 1 April 2017	23,368	492	21,791	11,643	9,083	29,082	95,459
Additions	-	-	744	5,927	3,534	9,013	19,218
Disposals	(3,490)	-	(1,069)	(38)	-	(177)	(4,774)
Written off	-	-	-	-	(15)	(16)	(31)
Reclassification	-	-	-	-	*	*	-
Translation difference	-	-	-	-	*	-	-
Depreciation charges	-	(7)	(384)	(4,043)	(1,804)	(3,109)	(9,347)
Classified as held for sale	(2,070)	-	(859)	-	-	-	(2,929)
At 31 March 2018	17,808	485	20,223	13,489	10,798	34,793	97,596

Note:

* – Denotes amount less than RM500

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Office equipment, furniture and renovation RM'000	Plant, machinery and factory equipment RM'000	Construction in progress RM'000	Total RM'000
<i>Carrying Amount</i>								
At 1 April 2018	17,808	485	20,223	13,489	10,798	34,793	-	97,596
Additions	-	-	23	2,575	2,979	2,696	1,158	9,431
Disposal	-	-	-	(79)	-	(16)	-	(95)
Impairment loss	-	-	(273)	-	-	-	-	(273)
Depreciation charges	-	(8)	(445)	(4,721)	(2,021)	(3,937)	-	(11,132)
At 31 March 2019	17,808	477	19,528	11,264	11,756	33,536	1,158	95,527

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Office equipment, furniture and renovation RM'000	Plant, machinery and factory equipment RM'000	Total RM'000
At 31 March 2016							
Cost	5,237	499	13,439	15,526	12,198	25,558	72,457
Accumulated depreciation	-	-	(2,114)	(6,810)	(5,938)	(10,046)	(24,908)
Accumulated impairment	-	-	(173)	-	-	-	(173)
Carrying amount	5,237	499	11,152	8,716	6,260	15,512	47,376
At 31 March 2017							
Cost	23,368	499	24,379	23,967	18,203	49,920	140,336
Accumulated depreciation	-	(7)	(2,415)	(12,324)	(9,120)	(20,838)	(44,704)
Accumulated impairment	-	-	(173)	-	-	-	(173)
Carrying amount	23,368	492	21,791	11,643	9,083	29,082	95,459
At 31 March 2018							
Cost	17,808	499	23,046	27,941	20,665	57,182	147,141
Accumulated depreciation	-	(14)	(2,650)	(14,452)	(9,867)	(22,389)	(49,372)
Accumulated impairment	-	-	(173)	-	-	-	(173)
Carrying amount	17,808	485	20,223	13,489	10,798	34,793	97,596

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Freehold land RM'000	Leasehold land RM'000	Buildings RM'000	Motor vehicles RM'000	Office equipment, furniture and renovation RM'000	Plant, machinery and factory equipment RM'000	Construction in progress RM'000	Total RM'000
At 31 March 2019								
Cost	17,808	499	23,069	29,602	23,644	59,762	1,158	155,542
Accumulated depreciation	-	(22)	(3,095)	(18,338)	(11,888)	(26,226)	-	(59,569)
Accumulated impairment	-	-	(446)	-	-	-	-	(446)
Carrying amount	17,808	477	19,528	11,264	11,756	33,536	1,158	95,527

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

- (a) Included in property, plant and equipment of the Group are the following assets acquired under hire purchase terms. These leased assets have been pledged as security for the related finance lease liabilities of the Group as disclosed in Note 25 to the combined financial statements.

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
<i>Carrying Amount</i>				
Buildings	-	594	582	570
Motor vehicles	7,596	9,936	12,444	9,243
Office equipment, furniture and renovation	-	76	69	61
Plant, machinery and factory equipment	7,625	16,222	20,594	14,738
	<u>15,221</u>	<u>26,828</u>	<u>33,689</u>	<u>24,612</u>

- (b) The following assets of the Group have been pledged to licensed banks as security for banking facilities granted to the Group as disclosed in Notes 24, 26 and 27 to the combined financial statements:-

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
<i>Carrying Amount</i>				
Freehold land	5,208	19,849	17,779	17,779
Leasehold land	499	492	484	477
Buildings	11,021	20,307	19,827	19,408
	<u>16,728</u>	<u>40,648</u>	<u>38,090</u>	<u>37,664</u>

- (c) Included in plant, machinery and factory equipment of the Group are interests on borrowings capitalised during the financial year amounting to NIL (2018: RM268,253, 2017: RM68,482, 2016: NIL).

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****6. GOODWILL**

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Cost:-				
At 1 April 2015/2016/2017/2018	880	189	189	189
Disposal of a subsidiary	(691)	-	-	-
At 31 March 2016/2017/2018/2019	189	189	189	189
Accumulated impairment losses:-				
At 1 April 2015/2016/2017/2018	(718)	(27)	(27)	(27)
Disposal of a subsidiary	691	-	-	-
At 31 March 2016/2017/2018/2019	(27)	(27)	(27)	(27)
	162	162	162	162

- (a) The carrying amount of goodwill allocated to cash-generating unit is as follows:-

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
SDS Top Baker	162	162	162	162

- (b) The Group has assessed the recoverable amount of goodwill allocated and determined that no additional impairment is required. The recoverable amount of the cash-generating unit is determined using the value in use approach, and this is derived from the present value of the future cash flows from the cash-generating unit computed based on the projections of financial budgets approved by management covering a period of 5 years. The key assumptions used in the determination of the recoverable amount are as follows:-

	Gross Margin	Terminal Growth Rate	Discount Rate
2019			
SDS Top Baker	26%	0%	5.49%

- (i) Budgeted gross margin Average gross margin achieved in current financial year immediately before the budgeted period.
- (ii) Terminal growth rate Assume no growth in the future.
- (iii) Discount rate (pre-tax) Reflects specific risks relating to the relevant cash-generating unit.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****6. GOODWILL (CONT'D)**

(b) (Cont'd)

The values assigned to the key assumptions represent management's assessment of future trends in the cash-generating unit and are based on both external sources and internal historical data.

(c) The directors believe that there is no reasonable possible change in the above key assumptions applied that is likely to materially cause the cash-generating unit's carrying amount to exceed its recoverable amount.

7. DEFERRED TAX ASSETS

	At 1.4.2015 RM'000	Recognised in Profit or Loss (Note 29) RM'000	At 31.3.2016 RM'000
2016			
<i>Deferred Tax Asset</i>			
Contract liability	-	22	22
	At 1.4.2016 RM'000	Recognised in Profit or Loss (Note 29) RM'000	At 31.3.2017 RM'000
2017			
<i>Deferred Tax Asset</i>			
Contract liability	22	3	25
	At 1.4.2017 RM'000	Recognised in Profit or Loss (Note 29) RM'000	At 31.3.2018 RM'000
2018			
<i>Deferred Tax Liability</i>			
Property, plant and equipment	-	(515)	(515)
<i>Deferred Tax Assets</i>			
Unabsorbed reinvestment allowance	-	1,018	1,018
Contract liability	25	(4)	21
	25	1,014	1,039
	25	499	524

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****7. DEFERRED TAX ASSETS (CONT'D)**

	At 1.4.2018 RM'000	Recognised in Profit or Loss (Note 29) RM'000	At 31.3.2019 RM'000
2019			
<i>Deferred Tax Liability</i>			
Property, plant and equipment	(515)	(563)	(1,078)
	(515)	(563)	(1,078)
<i>Deferred Tax Assets</i>			
Unabsorbed reinvestment allowance	1,018	1,154	2,172
Contract liability	21	12	33
	1,039	1,166	2,205
	524	603	1,127

8. INVENTORIES

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Raw materials	3,183	4,723	4,359	4,829
Finished goods	279	333	297	374
	3,462	5,056	4,656	5,203
Recognised in profit or loss:-				
Inventories recognised as cost of sales	58,307	88,780	111,581	115,982
Inventories written off	-	-	59	-

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****9. TRADE RECEIVABLES**

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Trade receivables:-				
Third parties	4,221	6,671	8,245	8,513
Related parties	650	1,121	859	885
	4,871	7,792	9,104	9,398
Allowance for impairment losses	-	-	(136)	(121)
	4,871	7,792	8,968	9,277
Allowance for impairment losses:-				
At 1 April 2015/2016/2017/2018	-	-	-	136
Individually impaired under MRFS 139 (Note 28)	-	-	136	-
Additions under MFRS 9 (Note 28)	-	-	-	121
Written off during the financial year	-	-	-	(136)
Translation difference	-	-	-	*
At 31 March 2016/2017/2018/2019	-	-	136	121

Note:

* – Denotes amount less than RM500

- (a) The Group's normal trade credit terms range from 14 to 60 (2018: 30 to 60, 2017: 30 to 60, 2016: 30 to 60) days.
- (b) The amount owing by related parties represents goods sold to companies in which certain directors of the Group have controlling interests. The trade balance is subject to the normal trade credit term of 60 (2018: 30 to 60, 2017: 30 to 60, 2016: 30 to 60) days. The amount owing is to be settled in cash.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****10. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

	As at 31 March			
	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Other receivables:-				
Third parties	276	851	4,957	246
Related party	831	-	-	1
GST recoverable	11	397	423	147
	1,118	1,248	5,380	394
Deposits	2,857	3,780	1,975	2,085
Prepayments	979	1,742	2,100	3,347
	4,954	6,770	9,455	5,826

- (a) The amount owing by related party in financial year 2016 represented unsecured interest-free advances to a company in which certain directors of the Group have controlling interests. The amount was recovered subsequently.
- (b) The amount owing by related party in current financial year represents payment made on behalf of a company in which certain directors of the Group have controlling interest. The amount is recovered subsequently.
- (c) In financial year 2016, included in deposits of the Group was an amount of RM2,000,000 represented downpayment paid for acquisition of a subsidiary. The acquisition was completed in financial year 2017 as disclosed in Note 34.1 to the combined financial statements.
- (d) In financial year 2018, included in deposits of the Group was an amount of RM261,003 (2017: RM2,417,080, 2016: NIL) represented downpayment paid for the plant and machinery ordered.
- (e) In financial year 2018, included in other receivables of the Group was an amount of RM4,579,000 (2017: NIL, 2016: NIL) represented remaining amount owing by a third party for acquiring the land and buildings of a subsidiary. The outstanding amount was received in April 2018.

11. AMOUNT OWING BY DIRECTORS

In financial year 2016, the amount owing by directors represented unsecured payments made on behalf. The amount owing was settled in cash.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****12. AMOUNT OWING BY SHAREHOLDERS**

In financial year 2016, the amount owing by shareholders represented the remaining outstanding sale proceeds arising from the disposal of a subsidiary as disclosed in Note 30 to the combined financial statements. The amount owing was unsecured, interest-free and was settled in financial year 2017.

13. FIXED DEPOSITS WITH A LICENSED BANK

- (a) The fixed deposits with a licensed bank of the Group at the end of reporting period bore interest rate of 3.20% (2018: 3.20%, 2017: 2.95%, 2016: NIL) per annum. The fixed deposits have maturity periods of 30 (2018: 30, 2017: 30, 2016: NIL) days.
- (b) Included in the fixed deposits with a licensed bank of the Group at the end of reporting period is an amount of NIL (2018: RM81,926, 2017: RM79,535, 2016: NIL) which has been pledged to a licensed bank as security for bank guarantee granted to a subsidiary of the Group.

14. ASSETS CLASSIFIED AS HELD FOR SALE

In financial year 2018, the directors of a subsidiary committed to a plan to dispose of the freehold land and buildings of that subsidiary. The freehold land and buildings were presented in the combined statements of financial position as "Assets classified as held for sale" at end of the previous reporting period. The disposal was completed during the current financial year.

The details of assets classified as held for sale are as follows:-

	31 March
	2018
Assets	RM'000
Freehold land	2,070
Buildings (cost RM966,394, accumulated depreciation RM107,914)	859
Non-current assets classified as held for sale	<u>2,929</u>

The carrying amount of the non-current assets is same as the carrying amount before they were being reclassified to current asset.

In previous financial years, the above freehold land and buildings were pledged to a licensed bank as security for banking facilities granted to a subsidiary as disclosed in Notes 24, 26 and 27 to the combined financial statements. The legal charge of the above freehold land and buildings had been satisfied and released during the current financial year.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****15. SHARE CAPITAL**

The authorised and paid-up share capital of the Group at the end of each reporting period are as follows:-

	As at 31 March							
	2016	2017	2018	2019	2016	2017	2018	2019
		Number of Shares ('000)						
Authorised								
Ordinary Shares of RM 1 each								
At 1 April / 31 March	2,750	N/A	N/A	N/A	2,750	N/A	N/A	N/A
N/A	Not applicable pursuant to Companies Act 2016 which came into operation on 31 January 2017 as disclosed in item (b) below.							
	As at 31 March							
	2016	2017	2018	2019	2016	2017	2018	2019
		Number of Shares ('000)						
Issued and Fully Paid-Up								
Ordinary Shares with no Par Value (31.3.2018/31.3.2017 - no Par Value, 31.3.2016 - Par Value of RM1 Each)								
At 1 April / 31 March	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****15. SHARE CAPITAL (CONT'D)**

- (a) The holders of ordinary shares are entitled to receive dividends as and when declared by the Group, and are entitled to one vote per ordinary share at meetings of the Group.
- (b) On 31 January 2017, the concepts of authorised share capital and par value of share capital were abolished in accordance with the Companies Act 2016. There is no impact on the numbers of ordinary shares in issue or the relative entitlement of any of the members as a result of this transition.
- (c) For the purpose of this report, the total number of shares as at 31 March 2016, 2017, 2018 and 2019 represent the aggregate number of issued shares of all entities within the Group, net of shares held by non-controlling interests.

16. RESERVES

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Foreign exchange translation reserve	310	506	415	454
Retained profits	17,562	21,960	27,399	35,018
	<u>17,872</u>	<u>22,466</u>	<u>27,814</u>	<u>35,472</u>

Foreign Exchange Translation Reserve

The foreign exchange translation reserve arose from the translation of the financial statements of a foreign subsidiary whose functional currency is different from the Group's functional and presentation currency.

17. NON-CONTROLLING INTERESTS

The non-controlling interests at the end of the reporting period comprise the following:-

	Effective Equity Interest %	As at 31 March			
		2016	2017	2018	2019
		RM'000	RM'000	RM'000	RM'000
City Cake	49	<u>108</u>	<u>276</u>	<u>427</u>	<u>512</u>

Summarised financial information of non-controlling interests has not been presented as the non-controlling interests of the subsidiary are not material to the Group.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****18. LONG-TERM BORROWINGS**

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Hire purchase payables (Note 25)	4,261	11,489	15,508	12,991
Term loans (Note 26)	9,529	22,121	27,300	27,530
	<u>13,790</u>	<u>33,610</u>	<u>42,808</u>	<u>40,521</u>

19. OTHER PAYABLES AND ACCRUALS

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Non-current:				
Other payable	-	7,098	694	502
Current:				
Other payables:-				
Third parties	1,230	8,961	9,777	2,678
Related party	22	-	-	-
GST payable	261	225	462	10
SST payable	-	-	-	256
	<u>1,513</u>	<u>9,186</u>	<u>10,239</u>	<u>2,944</u>
Deposit received	116	168	116	147
Accruals	375	542	868	866
Payroll liabilities	1,167	1,940	2,123	3,454
	<u>3,171</u>	<u>11,836</u>	<u>13,346</u>	<u>7,411</u>
	<u>3,171</u>	<u>18,934</u>	<u>14,040</u>	<u>7,913</u>

- (a) Included in other payables are the remaining balance payable to the vendors of a subsidiary and the supplier of plant and machinery (please refer to the table shown below). Amount payable to the vendors is arising from the acquisition of a subsidiary as disclosed in Note 34.1 to the combined financial statements. The amount bore effective interest rate of NIL (2018: 4.68%, 2017: 4.68%, 2016: NIL) per annum. The amount payable to supplier is arising from the purchase of plant and machinery. The amount bore effective interest rate of 6.00% (2018: 6.00%, 2017: NIL, 2016: NIL) per annum.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****19. OTHER PAYABLES AND ACCRUALS (CONT'D)**

(a) (Cont'd)

	As at 31 March			
	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Current portion				
- Vendors of a subsidiary	-	4,812	6,927	-
- Supplier of plant and machinery	-	-	157	168
	-	4,812	7,084	168
Non-current portion				
- Vendors of a subsidiary	-	7,098	-	-
- Supplier of plant and machinery	-	-	694	502
	-	7,098	694	502
	-	11,910	7,778	670

(b) The amount owing to related party in financial year 2016 represented unsecured payments made on behalf by a company in which certain directors of the Group have controlling interests. The amount was settled in financial year 2017.

20. DEFERRED TAX LIABILITIES

	At 1.4.2015 RM'000	Recognised in Profit or Loss (Note 29) RM'000	At 31.3.2016 RM'000
2016			
<i>Deferred Tax Liabilities</i>			
Property, plant and equipment	1,649	393	2,042
<i>Deferred Tax Assets</i>			
Unabsorbed capital allowances	(233)	195	(38)
Unabsorbed reinvestment allowance	(941)	(73)	(1,014)
	(1,174)	122	(1,052)
	475	515	990

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****20. DEFERRED TAX LIABILITIES (CONT'D)**

	At 1.4.2016 RM'000	Recognised in Profit or Loss (Note 29) RM'000	Acquisition of a Subsidiary (Note 34.1) RM'000	At 31.3.2017 RM'000
2017				
<i>Deferred Tax Liabilities</i>				
Property, plant and equipment	2,042	203	692	2,937
Unrealised foreign exchange gain	-	8	-	8
	2,042	211	692	2,945
<i>Deferred Tax Assets</i>				
Unabsorbed capital allowances	(38)	11	-	(27)
Unabsorbed reinvestment allowance	(1,014)	251	-	(763)
	(1,052)	262	-	(790)
	990	473	692	2,155

	At 1.4.2017 RM'000	Recognised in Profit or Loss (Note 29) RM'000	At 31.3.2018 RM'000
2018			
<i>Deferred Tax Liabilities</i>			
Property, plant and equipment	2,937	(44)	2,893
Unrealised foreign exchange gain	8	(2)	6
	2,945	(46)	2,899
<i>Deferred Tax Assets</i>			
Unabsorbed capital allowances	(27)	9	(18)
Unabsorbed reinvestment allowance	(763)	(56)	(819)
	(790)	(47)	(837)
	2,155	(93)	2,062

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****20. DEFERRED TAX LIABILITIES (CONT'D)**

	At 1.4.2018 RM'000	Recognised in Profit or Loss (Note 29) RM'000	At 31.3.2019 RM'000
2019			
<i>Deferred Tax Liabilities</i>			
Property, plant and equipment	2,893	(102)	2,791
Unrealised foreign exchange gain	6	(3)	3
	<u>2,899</u>	<u>(105)</u>	<u>2,794</u>
<i>Deferred Tax Assets</i>			
Unabsorbed capital allowances	(18)	(5)	(23)
Unabsorbed reinvestment allowance	(819)	160	(659)
	<u>(837)</u>	<u>155</u>	<u>(682)</u>
	<u>2,062</u>	<u>50</u>	<u>2,112</u>

21. CONTRACT LIABILITY

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Current portion	21	29	29	49
Non-current portion	71	74	45	87
	<u>92</u>	<u>103</u>	<u>74</u>	<u>136</u>

Contract liability relates to the unsatisfied performance obligation in which the Group has yet to deliver the licensing services to the customers. The contract liability is recognised to profit or loss only when the performance obligation has been fulfilled.

22. TRADE PAYABLES

The normal trade credit terms granted to the Group range from 30 to 120 (2018: 30 to 150, 2017: 30 to 150, 2016: 30 to 120) days.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****23. AMOUNT OWING TO DIRECTORS**

The amount owing to directors represented unsecured payments made on behalf. The amount owing was settled in cash.

24. SHORT-TERM BORROWINGS

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Bankers' acceptance	5,136	7,381	7,829	948
Hire purchase payables (Note 25)	4,882	6,000	5,621	5,542
Term loans (Note 26)	926	1,466	2,100	2,302
	<u>10,944</u>	<u>14,847</u>	<u>15,550</u>	<u>8,792</u>

The bankers' acceptance is drawn for a period of up to 119 (2018: 120, 2017: 119, 2016: 120) days which bore interest ranging from 3.89% to 4.09% (2018: 3.66% to 5.19%, 2017: 3.58% to 5.10%, 2016: 3.95% to 5.11%) per annum.

Bankers' acceptance, terms loans and bank overdrafts are secured by:-

- (a) legal charges over freehold land, leasehold land and buildings of the Group as disclosed in Notes 5 and 14 to the combined financial statements;
- (b) legal charges over a piece of land owned by certain directors of the Group, a director of the subsidiaries, persons connected to certain directors of the Group and a third party;
- (c) legal charges over land and building owned by a Company in which certain directors of the Group have controlling interests; and
- (d) jointly and severally guaranteed by certain directors of the Group and a director of certain subsidiaries.

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****25. HIRE PURCHASE PAYABLES (SECURED)**

	As at 31 March			
	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Minimum hire purchase payments:				
- not later than 1 year	5,292	6,918	6,760	6,510
- later than 1 year not later than 5 years	4,416	12,783	17,027	13,915
	9,708	19,701	23,787	20,425
Less: Future finance charges	(565)	(2,212)	(2,658)	(1,892)
Present value of hire purchase payables	9,143	17,489	21,129	18,533
Analysed by:-				
Current liabilities (Note 24)	4,882	6,000	5,621	5,542
Non-current liabilities (Note 18)	4,261	11,489	15,508	12,991
	9,143	17,489	21,129	18,533

- (a) The hire purchase payables of the Group are secured by the Group's building, motor vehicles, office equipment, furniture, renovation, plant and machinery and factory equipment under finance leases as disclosed in Note 5(a) to the combined financial statements. The hire purchase arrangements are expiring from 1 to 5 (2018: 1 to 5, 2017: 1 to 5, 2016: 1 to 5) years.
- (b) The hire purchase payables of the Group at the end of the reporting period bore effective interest rates ranging from 4.33% to 6.80% (2018: 4.33% to 6.61%, 2017: 4.37% to 7.60%, 2016: 4.37% to 7.60%). The interest rates are fixed at the inception of the hire purchase arrangements.

26. TERM LOANS (SECURED)

	As at 31 March			
	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Current liabilities (Note 24)	926	1,466	2,100	2,302
Non-current liabilities (Note 18)	9,529	22,121	27,300	27,530
	10,455	23,587	29,400	29,832

- (a) Term loans of the Group are secured in the same manner as the short-term borrowings as disclosed in Note 24 to the combined financial statements.
- (b) The above floating rate term loans bore effective interest rates ranging from 4.67% to 6.89% (2018: 4.55% to 6.85%, 2017: 4.30% to 6.54%, 2016: 4.55% to 7.35%) per annum.

12. ACCOUNTANTS' REPORT (*Cont'd*)

**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****27. BANK OVERDRAFTS (SECURED)**

- (a) The bank overdrafts of the Group are secured in the same manner as the short-term borrowings as disclosed in Note 24 to the combined financial statements.
- (b) The bank overdrafts of the Group at the end of the reporting period bore floating interest rates ranging from 7.47% to 7.90% (2018: 7.47% to 7.90%, 2017: 7.22% to 7.79%, 2016: 7.22% to 7.85%) per annum.

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****28. PROFIT BEFORE TAX**

	FYE 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at:-				
<i>After Charging</i>				
Allowance for impairment losses on trade receivables (Note 9)	-	-	136	121
Auditors' remuneration:				
- audit fee				
- current financial year	81	178	182	180
- under/(over) provision in previous financial year	2	(1)	(2)	(5)
- non-audit fee				
- current financial year	3	138	-	-
- over provision in previous financial year	-	-	(16)	-
Bad debts written off	4	-	-	*
Depreciation of property, plant and equipment (Note 5)	5,706	7,153	9,347	11,132
Impairment loss on property, plant and equipment (Note 5)	-	-	-	273
Interest expense on financial liabilities that are not at fair value through profit or loss				
- bank overdrafts	51	45	78	76
- short-term borrowings	1,458	1,767	2,651	3,013
- imputed interest on other payables	-	-	371	83
Loss on foreign exchange:				
- realised	212	-	186	116
- unrealised	52	-	2	*
Loss on disposal of marketable securities	53	-	-	-
Loss on disposal of property, plant and equipment	185	-	-	24
Property, plant and equipment written off (Note 5)	389	-	31	-
Rental expenses	2,016	2,841	3,897	4,801
Staff costs (including other key management personnel as disclosed in Note 36):				
- short-term employee benefits	17,296	27,351	32,888	35,583
- defined contribution benefits	1,349	2,015	2,680	2,958

Note:

* – Denotes amount less than RM500

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****28. PROFIT BEFORE TAX (CONT'D)**

	FYE 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Profit before tax is arrived at (Cont'd):-				
<i>After Crediting</i>				
Bad debts recovered	6	3	-	-
Dividend income from marketable securities	14	-	-	-
Gain on bargain purchase (Note 34.1)	-	829	-	-
Gain on disposal of a subsidiary (Note 30(c))	354	-	-	-
Gain on disposal of assets classified as held for sale	-	-	-	1,972
Gain on disposal of property, plant and equipment	1	664	1,016	152
Gain on foreign exchange:				
- realised	142	642	162	1
- unrealised	-	19	27	12
Rental income	135	87	78	62
Interest income on financial assets that are not at fair value through profit or loss:				
- fixed deposits with licensed banks	2	4	11	1
- imputed interest on an other payable	-	590	-	-
Reversal of loss on remeasurement to fair value less cost of disposal of property, plant and equipment	249	-	-	-

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****29. INCOME TAX EXPENSE**

	FYE 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Current tax:				
- current financial year	676	1,189	1,040	1,744
- (over)/under provision in previous financial year	(338)	(13)	151	120
	338	1,176	1,191	1,864
Real property gains tax	-	-	144	150
Over provision of real property gains tax in previous financial year	-	-	-	(13)
	338	1,176	1,335	2,001
Deferred tax (Notes 7 and 20):				
- origination and reversal of temporary differences	264	369	(382)	66
- reversal of real property gains tax upon disposal of land and buildings	-	-	(144)	-
- under provision of deferred tax assets in previous financial year	-	-	(13)	(495)
- under/(over) provision of deferred tax liabilities in previous financial year	229	101	(53)	(124)
	493	470	(592)	(553)
Total income tax expense	831	1,646	743	1,448

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****29. INCOME TAX EXPENSE (CONT'D)**

A reconciliation of income tax expense applicable to the profit before tax at the statutory tax rate to income tax expense at the effective tax rate of the Group is as follows:-

	FYE 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Profit before tax	4,705	7,965	6,633	9,302
Tax at the statutory tax rate of 24%	1,129	1,912	1,592	2,232
Tax effects of:-				
Reduction in tax rate on small scale company up to RM500,000 at 17% (2016/2017/2018: 18%) in Malaysia	(30)	(28)	(23)	(32)
Reduction in tax rate on company in other jurisdiction	(86)	(33)	(38)	(69)
Tax incentives - reinvestment allowance	(242)	(254)	(1,331)	(341)
Non-taxable income	(28)	(173)	(57)	(479)
Non-deductible expenses	244	223	541	546
Deemed interest income subject to tax	*	1	-	-
Effects of differential in tax rate of a subsidiary	(47)	(18)	(25)	(47)
Effect of reduction in tax rate from 24% to 20% on incremental taxable income	-	(72)	(1)	-
Real property gains tax arising from disposal of assets classified as held for sale	-	-	-	150
Over provision of real property gains tax in previous financial year	-	-	-	(13)
(Over)/Under provision of current tax in previous financial year	(338)	(13)	151	120
Under provision of deferred tax assets in previous financial year	-	-	(13)	(495)
Under/(Over) provision of deferred tax liabilities in previous financial year	229	101	(53)	(124)
	<u>831</u>	<u>1,646</u>	<u>743</u>	<u>1,448</u>

Note:

* – Denotes amount less than RM500

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% (2018: 24%, 2017: 24%, 2016: 24%) of the estimated assessable profit for the financial years. The taxation of other jurisdiction is calculated at the rate prevailing in the jurisdiction.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****29. INCOME TAX EXPENSE (CONT'D)**

For years of assessment 2017 and 2018, the Malaysian statutory tax rate has reduced by 1% to 4%, based on the prescribed incremental percentage of chargeable income from business, compared to that of the immediate preceding year of assessment. The Group has accounted for the reduction in the tax rate in the financial years 2017 and 2018, based on the percentage of increase in chargeable income of its subsidiaries.

30. LOSS AFTER TAX FROM DISCONTINUED OPERATION

In financial year 2016, the Group disposed of its entire investment in SDS Tan Properties Sdn. Bhd. which is principally involved in the business of property investment holding.

An analysis of the results of the discontinued operation is as follows:-

	31 March 2016
	RM'000
Revenue	31
Cost of sales	-
Gross profit	31
Other income	51
Administrative expenses	(586)
Finance costs	(59)
Results from operating activities	(563)
Tax income	79
Loss after tax from discontinued operation	(484)

(a) Included in loss before tax from the discontinued operation are the following:-

	31 March 2016
	RM'000
Audit fee - current financial year	4
Depreciation of property, plant and equipment	33
Interest expense on financial liabilities that are not at fair value through profit or loss:	
- bank overdraft	38
- term loans	21
Impairment loss on property, plant and equipment	360
Staff costs:	
- salaries, bonuses and allowances	23
- defined contribution benefits	3
Gain on disposal of marketable securities	(51)

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****30. LOSS AFTER TAX FROM DISCONTINUED OPERATION (CONT'D)**

- (b) The cash flows attributable to the discontinued operation are the followings:-

	31 March
	2016
	RM'000
Net cash from operating activities	863
Net cash for investing activities	(2,183)
Net cash from financing activities	893

- (c) The effect of the disposal of the discontinued operation on the financial position was as follows:-

	31 March
	2016
	RM'000
Property, plant and equipment	3,127
Marketable securities	882
Other receivables	24
Current tax asset	37
Cash and bank balance	7
Other payables and accruals	(859)
Amount due to directors	(990)
Term loans	(314)
Bank overdraft	(568)
Carrying amount of net assets disposed of	1,346
Gain on disposal of a subsidiary (Note 28)	354
Total sales consideration	1,700
Add: Cash and cash equivalents disposed of	561
Less: Outstanding amount captured as amount owing by shareholders	(453)
Net cash inflow on disposal of subsidiary	1,808

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****31. OTHER COMPREHENSIVE INCOME/(EXPENSES)**

	FYE 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Item that Will be Reclassified Subsequently to Profit or Loss				
Foreign currency translation:				
- changes during the financial year	176	196	(91)	39

32. EARNINGS/(LOSS) PER SHARE

	FYE 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Profit attributable to owners of the Company				
- continuing operations	3,850	6,151	5,739	7,695
- discontinued operation	(484)	-	-	-
	3,366	6,151	5,739	7,695
Number of ordinary shares ('000)	2,750	2,750	2,750	2,750
Basis and diluted earnings per share (Sen)				
- continuing operations	140.00	223.67	208.69	279.82
- discontinued operation	(17.60)	-	-	-
	122.40	223.67	208.69	279.82

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****33. DIVIDENDS**

	FYE 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
In respect of the financial year ended 31 March 2016				
First interim dividend of RM0.16 on 2,750,000 ordinary shares	440	-	-	-
Second interim dividend of approximately RM3,501.00 on 100 ordinary shares paid by a subsidiary prior to the acquisition	350	-	-	-
Third interim dividend of approximately RM5,251.50 on 100 ordinary shares paid by a subsidiary prior to the acquisition	525	-	-	-
In respect of the financial year ended 31 March 2017				
First interim dividend of approximately RM6,478.49 on 100 ordinary shares paid by a subsidiary prior to the acquisition	-	648	-	-
Second interim dividend of approximately RM7,393.10 on 100 ordinary shares paid by a subsidiary prior to the acquisition	-	739	-	-
Third interim dividend of approximately RM3,658.44 on 100 ordinary shares paid by a subsidiary prior to the acquisition	-	366	-	-
In respect of the financial year ended 31 March 2018				
Interim dividend of approximately RM0.11 on 2,750,000 ordinary shares	-	-	300	-
In respect of the financial year ended 31 March 2019				
Interim dividend of approximately RM1.22 on 122,450 ordinary shares paid by a subsidiary prior to the acquisition	-	-	-	150
	<u>1,315</u>	<u>1,753</u>	<u>300</u>	<u>150</u>

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****34. ACQUISITION OF SUBSIDIARY****34.1 ACQUISITION OF A SUBSIDIARY – DAILY BAKERY**Financial year ended 31 March 2017

On 15 February 2016, a subsidiary of the Company entered into a Share Sale Agreement to acquire the entire equity interests in Daily Bakery. With the acquisition of Daily Bakery, the Group is able to expand its business into the central region of Malaysia. The said acquisition was completed on 1 May 2016.

The following summarises the purchase consideration payable, the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

(a) Identifiable Assets Acquired and Liabilities Assumed

	2017 RM'000
Property, plant and equipment (Note 5)	31,426
Deposits	1,701
Term loan	(5,770)
Deferred tax liabilities (Note 20)	(692)
Other payable	(6)
Net identifiable assets	26,659
Less: Gain on bargain purchase (Note 28)	(829)
Total purchase consideration	25,830
Less: Outstanding amount captured in other payables	(12,500)
Net cash outflow from the acquisition of a subsidiary	13,330

(b) Impact of Acquisition on the Group's Result

The acquired subsidiary has contributed the following results to the Group:-

	2017 RM'000
Revenue	27,203
Profit after tax	685

If the acquisition had taken place at the beginning of the financial year 2017, the Group's revenue and profit after tax for the financial year 2017 would have been RM143.36 million and RM5.84 million respectively.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****35. CASH FLOW INFORMATION**

- (a) The cash disbursed for the purchase of property, plant and equipment is as follows:-

	FYE 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Cost of property, plant and equipment purchased (Note 5)	6,969	23,991	19,218	9,431
Amount financed through hire purchase (Note (b) below)	(4,464)	(13,884)	(10,697)	(3,470)
Downpayment paid in previous financial year	-	-	-	(261)
Amount financed through term loan	-	(1,500)	-	-
Amount financed through third party	-	-	(877)	-
Borrowing cost capitalised	-	(68)	(268)	-
Cash disbursed for purchase of property, plant and equipment	<u>2,505</u>	<u>8,539</u>	<u>7,376</u>	<u>5,700</u>

- (b) The reconciliations of liabilities arising from financing activities are as follows:-

	Bankers' Acceptance	Hire Purchases	Term Loans	Other Payables	Total
	RM'000	RM'000	RM'000	RM'000	RM'000
2018					
At 1 April 2017	7,381	17,489	23,587	11,910	60,367
Changes in Financing Cash Flows					
Proceeds from drawdown	21,602	-	7,670	-	29,272
Repayment of borrowing principal	(21,154)	(7,057)	(1,857)	(5,009)	(35,077)
Repayment of borrowing interests	(333)	(1,265)	(1,321)	(371)	(3,290)
	115	(8,322)	4,492	(5,380)	(9,095)
Non-cash Changes					
New hire purchase (Note (a) above)	-	10,697	-	-	10,697
New loan from third party (Note (a) above)	-	-	-	877	877
Finance charges recognised in profit or loss	333	997	1,321	371	3,022
Finance charges capitalised under property, plant and equipment	-	268	-	-	268
	333	11,962	1,321	1,248	14,864
At 31 March 2018	<u>7,829</u>	<u>21,129</u>	<u>29,400</u>	<u>7,778</u>	<u>66,136</u>

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****35. CASH FLOW INFORMATION**

- (b) The reconciliations of liabilities arising from financing activities are as follows (Cont'd):-

	Bankers' Acceptance RM'000	Hire Purchases RM'000	Term Loans RM'000	Other Payables RM'000	Total RM'000
2019					
At 1 April 2018	7,829	21,129	29,400	7,778	66,136
<u>Changes in Financing Cash Flows</u>					
Proceeds from drawdown	14,443	-	3,600	-	18,043
Repayment of borrowing principal	(21,324)	(6,066)	(3,168)	(7,108)	(37,666)
Repayment of borrowing interests	(254)	(1,241)	(1,518)	(83)	(3,096)
	(7,135)	(7,307)	(1,086)	(7,191)	(22,719)
<u>Non-cash Changes</u>					
New hire purchase (Note (a) above)	-	3,470	-		3,470
Finance charges recognised in profit or loss	254	1,241	1,518	83	3,096
	254	4,711	1,518	83	6,566
At 31 March 2019	948	18,533	29,832	670	49,983

Comparative information for FYE 31 March 2016 and 2017 are not presented by virtue of the exemption given in MFRS 107.

- (c) The cash and cash equivalents comprise the following:-

	As at 31 March			
	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Fixed deposits with a licensed bank	-	140	82	22
Cash and bank balances	2,055	2,675	5,107	6,164
Bank overdrafts	(733)	(2,164)	(473)	(458)
	1,322	651	4,716	5,728
Less: Fixed deposits pledged to a licensed bank (Note 13(b))	-	(80)	(82)	-
	1,322	571	4,634	5,728

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****36. KEY MANAGEMENT PERSONNEL COMPENSATION**

The key management personnel of the Group and of the Company include executive directors and non-executive directors of the Company and certain members of senior management of the Group and of the Company.

The key management personnel compensation during the financial year are as follows:-

		FYE 31 March			
		2016	2017	2018	2019
		RM'000	RM'000	RM'000	RM'000
(a) Directors					
	<u>Directors of the Company</u>				
	Short-term employee benefits:				
	- fees	-	61	-	-
	- salaries, bonuses and other benefits	536	725	849	1,399
		536	786	849	1,399
	Defined contribution benefits	60	85	92	156
		596	871	941	1,555
	<u>Directors of the Subsidiaries</u>				
	Short-term employee benefits:				
	- fees	-	-	7	-
	- salaries, bonuses and other benefits	127	134	178	179
		127	134	185	179
	Defined contribution benefits	13	12	19	19
		140	146	204	198
	Total directors' remuneration	736	1,017	1,145	1,753
(b) Other Key Management Personnel					
	Short-term employee benefits	-	39	453	734
	Defined contribution benefits	-	4	47	77
	Total compensation for other key management personnel	-	43	500	811

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****37. RELATED PARTY DISCLOSURE****(a) Identities of Related Parties**

Parties are considered to be related to the Group if the Group or the Company has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group or the Company and the party are subject to common control.

Related parties of the Group includes:-

Companies in which certain directors have controlling interests

- (i) PT Top Baker Indonesia ("PTB")*
- (ii) SDS Tan Properties Sdn. Bhd. ("STP")
- (iii) KS Tan Properties Sdn. Bhd. ("KST")
- (iv) City Cafeteria ("CC")^
- (v) Sin Lee Hiang Cake House ("SLH")
- (vi) Regina Cake House ("RCH")

Notes:

* – PTB ceased to be a related party on 22 November 2017 after the directors disposed of their shares in PTB and resigned as directors of PTB.

^ – CC has been deregistered from Companies Commission of Malaysia on 8 July 2015.

(b) Significant Related Party Transactions

Other than those disclosed elsewhere in the combined financial statements, the Group carried out the following transactions with related parties during the year.

	FYE 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Companies in which certain directors have controlling interests				
Sales of goods	9,264	11,961	9,076	6,628
Purchase of goods	7	2	2	-
Sales of property, plant and equipment	-	80	-	-
Purchase of property, plant and equipment	175	-	-	-
Rental of premises paid/payable	31	262	292	319
Rental of premises received/receivable	6	6	6	6
Reimbursement of rental deposit	106	-	-	-
Promotion support	22	91	23	-
Directors and family members				
Acquisition of a subsidiary	1,700	-	-	-
Payment made on behalf of a director	43	-	-	-
Rental of premises paid/payable	24	19	10	-
Sale of investment in a subsidiary	1,700	-	-	-

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
38. OPERATING SEGMENTS

Operating segments are prepared in a manner consistent with the internal reporting provided to the Group Managing Director as its chief operating decision maker in order to allocate resources to segments and to assess their performance on a monthly basis. For management purposes, the Group is organised into business units based on their products and services provided.

The Group is organised into 4 main reportable segments as follows:-

- Retail Segment – involved in the manufacturing of products and dealing directly with ultimate customers through the Group's retail outlets. Companies under this segment included SDS Food, SDS B&C, City Cake and SDS Enterprise.
 - Wholesale Segment – involved in the manufacturing of products and distributing to the retailer through the Group's fleet of lorries. Companies under this segment included SDS Top Baker, Daily Bakery and Super Arrow.
 - Property Investment Holding Segment – rental of properties. In financial year 2016, this segment was classified as discontinued operation (Note 30).
 - Other Segment – provide group-level management services. Company under this segment is SDSG. This segment has yet to commence business.
- (a) The Group Managing Director assesses the performance of the reportable segments based on their profit before interest expense and tax. The accounting policies of the reportable segments are the same as the Group's accounting policies.

Borrowings and investment-related activities are managed on a group basis by the central treasury function and are not allocated to reportable segments.

- (b) Each reportable segment asset is measured based on all assets (including goodwill) of the segment other than tax-related assets.
- (c) Each reportable segment liability is measured based on all liabilities of the segment other than borrowings and tax-related liabilities.

Transactions between reportable segments are carried out on agreed terms between both parties. The effects of such inter-segment transactions are eliminated on combination.

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****38. OPERATING SEGMENTS (CONT'D)****38.1 BUSINESS SEGMENTS**

	Retail Segment RM'000	Wholesale Segment RM'000	Property Investment Holding Segment (Discontinued) RM'000	Group RM'000
31.3.2016				
Revenue				
External revenue	28,210	65,772	31	94,013
Inter-segment revenue	14,458	2,273	155	16,886
	42,668	68,045	186	110,899
Combination adjustments				(16,886)
Combined revenue				94,013
Results				
Segment profit/(loss)	1,764	4,114	(349)	5,529
Finance costs				(1,568)
Combination adjustments				181
Combined profit before tax				4,142
Segment profit/(loss) includes the followings:-				
Depreciation of property, plant and equipment	(1,487)	(4,219)	(33)	(5,739)
Gain on disposal of a subsidiary	354	-	-	354
Impairment loss on property, plant and equipment	-	-	(360)	(360)
Property, plant and equipment written off	(382)	(7)	-	(389)
Rental expenses	(1,866)	(150)	-	(2,016)

The information on the disaggregation of revenue is not presented for the comparative periods as the Group has applied MFRS 15 using the modified retrospective application.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****38. OPERATING SEGMENTS (CONT'D)****38.1 BUSINESS SEGMENTS (CONT'D)**

	Retail Segment RM'000	Wholesale Segment RM'000	Property Investment Holding Segment (Discontinued) RM'000	Group RM'000
31.3.2016				
Assets				
Segment assets	32,647	44,501	-	77,148
Unallocated assets:				
- current tax assets				788
- deferred tax assets				22
Combination adjustments				(13,693)
Combined total assets				<u>64,265</u>
Addition to non-current assets other than financial instruments is:-				
- property, plant and equipment	2,145	4,824	-	6,969
Liabilities				
Segment liabilities	12,937	15,465	-	28,402
Unallocated liabilities:				
- current tax liabilities				50
- deferred tax liabilities				990
- bankers' acceptance				5,136
- hire purchase payables				9,143
- term loans				10,455
Combination adjustments				(10,641)
Combined total liabilities				<u>43,535</u>

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****38. OPERATING SEGMENTS (CONT'D)****38.1 BUSINESS SEGMENTS (CONT'D)**

	Retail Segment RM'000	Wholesale Segment RM'000	Group RM'000
31.3.2017			
Revenue			
External revenue	38,208	101,125	139,333
Inter-segment revenue	18,380	2,623	21,003
	<u>56,588</u>	<u>103,748</u>	<u>160,336</u>
Combination adjustments			(21,003)
Combined revenue			<u>139,333</u>
Results			
Segment profit	5,400	5,313	10,713
Finance costs			(1,812)
Combination adjustments			(936)
Combined profit before tax			<u>7,965</u>
Segment profit/(loss) includes the followings:-			
Depreciation of property, plant and equipment	(1,918)	(5,235)	(7,153)
Gain on bargain purchase	829	-	829
Gain on disposal of property, plant and equipment	89	575	664
Gain on foreign exchange:			
- realised	324	318	642
Rental expenses	<u>(2,420)</u>	<u>(421)</u>	<u>(2,841)</u>

The information on the disaggregation of revenue is not presented for the comparative periods as the Group has applied MFRS 15 using the modified retrospective application.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****38. OPERATING SEGMENTS (CONT'D)****38.1 BUSINESS SEGMENTS (CONT'D)**

	Retail Segment RM'000	Wholesale Segment RM'000	Group RM'000
31.3.2017			
Assets			
Segment assets	56,026	87,471	143,497
Unallocated assets:			
- current tax assets			1,166
- deferred tax assets			25
Combination adjustments			(25,443)
Combined total assets			<u>119,245</u>
 Addition to non-current assets other than financial instruments is:-			
- property, plant and equipment	4,974	19,017	23,991
Liabilities			
Segment liabilities	26,333	26,462	52,795
Unallocated liabilities:			
- current tax liabilities			64
- deferred tax liabilities			2,155
- bankers' acceptance			7,381
- hire purchase payables			17,489
- term loans			23,587
Combination adjustments			(9,718)
Combined total liabilities			<u>93,753</u>

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****38. OPERATING SEGMENTS (CONT'D)****38.1 BUSINESS SEGMENTS (CONT'D)**

	Retail Segment RM'000	Wholesale Segment RM'000	Other Segment RM'000	Group RM'000
31.3.2018				
Revenue				
External revenue	54,474	119,727	-	174,201
Inter-segment revenue	14,715	1,359	-	16,074
	69,189	121,086	-	190,275
Combination adjustments				(16,074)
Combined revenue				174,201
Results				
Segment profit	12,679	7,952	-	20,631
Finance costs				(3,100)
Unallocated expenses				(4)
Combination adjustments				(10,894)
Combined profit before tax				6,633
Segment profit/(loss) includes the followings:-				
Depreciation of property, plant and equipment	(2,135)	(7,212)	-	(9,347)
Gain on disposal of property, plant and equipment	87	929	-	1,016
Rental expenses	(3,067)	(830)	-	(3,897)

The information on the disaggregation of revenue is not presented for the comparative periods as the Group has applied MFRS 15 using the modified retrospective application.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****38. OPERATING SEGMENTS (CONT'D)****38.1 BUSINESS SEGMENTS (CONT'D)**

	Retail Segment RM'000	Wholesale Segment RM'000	Other Segment RM'000	Group RM'000
31.3.2018				
Assets				
Segment assets	63,974	92,799	*	156,773
Unallocated assets:				
- current tax assets				1,396
- deferred tax assets				524
Combination adjustments				(27,818)
Combined total assets				<u>130,875</u>
Addition to non-current assets other than financial instruments is:-				
- property, plant and equipment	4,331	14,887	-	19,218
Liabilities				
Segment liabilities	24,816	20,852	4	45,672
Unallocated liabilities:				
- current tax liabilities				5
- deferred tax liabilities				2,062
- bankers' acceptance				7,829
- hire purchase payables				21,129
- term loans				29,400
Combination adjustments				(6,213)
Combined total liabilities				<u>99,884</u>

Note:

* – Denotes amount less than RM500

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****38. OPERATING SEGMENTS (CONT'D)****38.1 BUSINESS SEGMENTS (CONT'D)**

	Retail Segment RM'000	Wholesale Segment RM'000	Other Segment RM'000	Group RM'000
31.3.2019				
Revenue				
External revenue	62,201	124,928	-	187,129
Inter-segment revenue	11,126	1,145	-	12,271
	<u>73,327</u>	<u>126,073</u>	<u>-</u>	<u>199,400</u>
Combination adjustments				(12,271)
Combined revenue				<u>187,129</u>
Represented by:-				
<u>Revenue recognised at a point in time</u>				
Sales of goods	73,157	126,073	-	199,230
Outlet fee	93	-	-	93
Consultant fee	38	-	-	38
<u>Revenue recognised over time</u>				
License fee	39	-	-	39
	<u>73,327</u>	<u>126,073</u>	<u>-</u>	<u>199,400</u>
Combination adjustments				(12,271)
				<u>187,129</u>
Results				
Segment profit	11,098	6,426	-	17,524
Finance costs				(3,172)
Unallocated expenses				(8)
Combination adjustments				(5,042)
Combined profit before tax				<u>9,302</u>
Segment profit/(loss) includes the followings:-				
Depreciation of property, plant and equipment	(2,383)	(8,749)	-	(11,132)
Gain on disposal of assets classified as held for sale	-	1,972	-	1,972
Rental expenses	(3,798)	(1,003)	-	(4,801)

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****38. OPERATING SEGMENTS (CONT'D)****38.1 BUSINESS SEGMENTS (CONT'D)**

	Retail Segment RM'000	Wholesale Segment RM'000	Other Segment RM'000	Group RM'000
31.3.2019				
Assets				
Segment assets	64,511	86,318	30	150,859
Unallocated assets:				
- current tax assets				998
- deferred tax assets				1,127
Combination adjustments				(28,678)
Combined total assets				<u>124,306</u>
Addition to non-current assets other than financial instruments is:-				
- property, plant and equipment	4,502	4,929	-	9,431
Liabilities				
Segment liabilities	15,981	24,907	42	40,930
Unallocated liabilities:				
- current tax liabilities				251
- deferred tax liabilities				2,112
- bankers' acceptance				948
- hire purchase payables				18,533
- term loans				29,832
Combination adjustments				(7,034)
Combined total liabilities				<u>85,572</u>

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****38. OPERATING SEGMENTS (CONT'D)****38.2 GEOGRAPHICAL INFORMATION**

Revenue is based on the country in which the customers are located.

Non-current assets are determined according to the country where these assets are located. The amounts of non-current assets do not include financial instruments and deferred tax assets.

	Revenue FYE 31 March			
	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Malaysia	78,816	120,211	156,167	171,003
Singapore	13,396	15,625	14,444	13,359
Indonesia	1,594	3,205	3,552	2,767
Others	207	292	38	-
	94,013	139,333	174,201	187,129

	Non-current Assets As at 31 March			
	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Malaysia	47,536	95,620	97,758	95,689
Singapore	2	1	-	-
	47,538	95,621	97,758	95,689

The information on the disaggregation of revenue based on geographical region is summarised below:-

	At A Point in Time 2019 RM'000	Over Time 2019 RM'000	Group 2019 RM'000
Malaysia	170,964	39	171,003
Singapore	13,359	-	13,359
Indonesia	2,767	-	2,767
	187,090	39	187,129

No information is presented for the comparative periods as the Group has applied MFRS 15 using the modified retrospective application.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****38. OPERATING SEGMENTS (CONT'D)****38.3 MAJOR CUSTOMERS**

There is no single customer that contributed 10% or more to the Group's revenue.

39. CAPITAL COMMITMENTS

	As at 31 March			
	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Purchase of property, plant and equipment	-	1,897	608	2,243

40. OPERATING LEASE COMMITMENTS**Leases as Lessee**

The Group leases a number of shop units under non-cancellable operating leases. The lease periods is 3 (2018: 1 to 3, 2017: 1 to 3, 2016: 1 to 3) years. Lease payments are increased every 2 years to reflect market rentals. Certain leases include contingent rental, which is on the basis of agreed percentage of the monthly sales figures or the agreed fixed monthly rental amount, whichever is higher. The Group is restricted from sub-leasing the leased assets to third parties unless obtained the written consent from the landlord.

The future minimum lease payments under the non-cancellable operating leases are as follows:-

	As at 31 March			
	2016 RM'000	2017 RM'000	2018 RM'000	2019 RM'000
Not more than 1 year	177	322	132	203
Later than 1 year and not later than 5 years	61	170	236	255
	238	492	368	458

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS**

The Group's activities are exposed to a variety of market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

41.1 FINANCIAL RISK MANAGEMENT POLICIES

The Group's policies in respect of the major areas of treasury activity are as follows:-

(a) Market Risk**(i) Foreign Currency Risk**

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than the respective functional currencies of entities within the Group. The currencies giving rise to this risk are primarily Singapore Dollar ("SGD") and United States Dollar ("USD"). Foreign currency risk is monitored closely on an ongoing basis to ensure that the net exposure is at an acceptable level.

The Group's exposure to foreign currency risk (a currency which is other than the functional currencies of the entities within the Group) that are based on the carrying amounts of the financial instruments at the end of the reporting period is summarised below:-

Foreign Currency Exposure

	SGD RM'000	USD RM'000	Total RM'000
2016			
<u>Financial Asset</u>			
Trade receivables	-	3	3
<u>Financial Liability</u>			
Trade payables	874	-	874
Currency Exposure	(874)	3	(871)
2017			
<u>Financial Asset</u>			
Other receivables, deposits and prepayments	-	419	419
<u>Financial Liability</u>			
Trade payables	1,554	-	1,554
Currency Exposure	(1,554)	419	(1,135)

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)****(a) Market Risk (Cont'd)****(i) Foreign Currency Risk (Cont'd)***Foreign Currency Exposure (Cont'd)*

	SGD RM'000	USD RM'000	Total RM'000
2018			
<u>Financial Assets</u>			
Other receivables, deposits and prepayments	-	14	14
<u>Financial Liability</u>			
Trade payables	1,595	-	1,595
Currency Exposure	(1,595)	14	(1,581)
2019			
<u>Financial Liability</u>			
Trade payables	1,649	-	1,649
Currency Exposure	(1,649)	-	(1,649)

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)****(a) Market Risk (Cont'd)****(i) Foreign Currency Risk (Cont'd)***Foreign Currency Risk Sensitivity Analysis*

The following table details the sensitivity analysis to a reasonably possible change in the foreign currencies at the end of the reporting period, with all other variables held constant:-

	FYE 31 March			
	2016 RM000	2017 RM000	2018 RM000	2019 RM000
Effects on Profit After Tax				
SGD/RM - strengthened by 4% (2018: 7%, 2017: 11% 2016: 16%)	(102)	(132)	(85)	(90)
SGD/RM - weakened by 4% (2018: 7%, 2017: 11% 2016: 16%)	102	132	85	90
USD/RM - strengthened by 11% (2018: 13%, 2017: 29%, 2016: 24%)	1	111	2	-
USD/RM - weakened by 11% (2018: 13%, 2017: 29%, 2016: 24%)	(1)	(111)	(2)	-
Effects on Other Comprehensive Income				
SGD/RM - strengthened by 4% (2018: 7%, 2017: 11% 2016: 16%)	420	145	109	88
SGD/RM - weakened by 4% (2018: 7%, 2017: 11% 2016: 16%)	(420)	(145)	(109)	(88)

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)****(a) Market Risk (Cont'd)****(ii) Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from borrowings with variable rates. The Group's policy is to obtain the most favourable interest rates available and by maintaining a balanced portfolio of mix of fixed and floating rate borrowings.

The Group's fixed deposits with a licensed bank and fixed rate borrowings are carried at amortised cost. Therefore, they are not subject to interest rate risk as defined in MFRS 7 since neither their carrying amount nor the future cash flows will fluctuate because of a change in market interest rates.

The Group's exposure to interest rate risk that based on the carrying amounts of the financial instruments at the end of the reporting period is disclosed in Notes 24, 26 and 27 to the combined financial statements.

Interest Rate Risk Sensitivity Analysis

The following table details the sensitivity analysis to a reasonably possible change in the interest rates at the end of the reporting period, with all other variables held constant:-

	FYE 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Effects on Profit After Tax				
Increase of 25 (2018/2017/ 2016: 25) basis points	(31)	(51)	(66)	(67)
Decrease of 25 (2018/2017/ 2016: 25) basis points	31	51	66	67

(iii) Equity Price Risk

The Group does not have any quoted investments and hence, is not exposed to equity price risk.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)****(b) Credit Risk**

The Group's exposure to credit risk, or the risk of counterparties defaulting, arises mainly from trade and other receivables. The Group manages its exposure to credit risk by monitoring procedures on an ongoing basis. For other financial assets (including cash and bank balances), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

(i) Credit Risk Concentration Profile

The Group's major concentration of credit risk relates to the amounts owing by NIL (2018: NIL, 2017: NIL, 2016: 1 customer) which constituted approximately NIL (2018: NIL, 2017: NIL, 2016: 18%) of its trade receivables (including related parties) at the end of the reporting period.

In addition, the Group also determines concentration of credit risk by monitoring the geographical region of its trade receivables on an ongoing basis. The credit risk concentration profile of trade receivables at the end of the reporting period is as follows:-

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Malaysia	2,458	5,408	6,505	6,847
Singapore	1,534	1,745	1,990	2,147
Indonesia	861	572	463	283
Others	18	67	10	-
	<u>4,871</u>	<u>7,792</u>	<u>8,968</u>	<u>9,277</u>

(ii) Exposure to Credit Risk

At the end of the reporting period, the maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the combined statements of financial position of the Group after deducting any allowance for impairment losses (where applicable).

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)
41. FINANCIAL INSTRUMENTS (CONT'D)
41.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)
(b) Credit Risk (Cont'd)
(iii) Assessment of Impairment Losses

At each reporting date, the Group assesses whether any of the financial assets at amortised cost are credit impaired.

The gross carrying amounts of financial assets are written off when there is no reasonable expectation of recovery (i.e. the debtor does not have assets or sources of income to generate sufficient cash flows to repay the debt) despite the fact that they are still subject to enforcement activities.

Trade Receivables

The Group applies the simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables has been grouped based on the months past due.

The Group considers any receivables having financial difficulty or with significant balances outstanding for more than 12 months, are deemed credit impaired.

The expected loss rates are computed based on the Group's historical credit losses experienced and last financial year's ageing profile of current financial year's outstanding balances. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle their debts.

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)****(b) Credit Risk (Cont'd)****(iii) Assessment of Impairment Losses (Cont'd)***Trade Receivables (Cont'd)*

In the last financial year, the loss allowance on trade receivables was calculated under MFRS 139. The ageing analysis of the Group's trade receivables (including amount owing by related parties) is as follows:-

	Gross Amount RM'000	Individual Impairment RM'000	Carrying Amount RM'000
31.3.2016			
Not past due	2,534	-	2,534
Past due:			
- less than 3 months	2,064	-	2,064
- 3 to 6 months	165	-	165
- more than 6 months	57	-	57
- more than 1 year	51	-	51
	4,871	-	4,871
31.3.2017			
Not past due	4,765	-	4,765
Past due:			
- less than 3 months	2,940	-	2,940
- 3 to 6 months	*	-	-
- more than 6 months	13	-	13
- more than 1 year	74	-	74
	7,792	-	7,792
31.3.2018			
Not past due	4,799	-	4,799
Past due:			
- less than 3 months	3,726	-	3,726
- 3 to 6 months	248	-	248
- more than 6 months	194	-	194
- more than 1 year	137	(136)	1
	9,104	(136)	8,968

Note:

* – Denotes amount less than RM500

12. ACCOUNTANTS' REPORT (Cont'd)

SDS GROUP BERHAD NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

41. FINANCIAL INSTRUMENTS (CONT'D)

41.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit Risk (Cont'd)

(iii) Assessment of Impairment Losses (Cont'd)

Trade Receivables (Cont'd)

The information about the exposure to credit risk and the loss allowances calculated under MFRS 9 for trade receivables are summarised below:-

	Gross Amount RM'000	Lifetime Loss Allowance RM'000	Carrying Amount RM'000
31.3.2019			
Not past due	5,188	-	5,188
Past due:			
- less than 3 months	3,793	-	3,793
- 3 to 6 months	148	-	148
- more than 6 months	114	-	114
- more than 1 year	34	-	34
	9,277	-	9,277
Credit impaired:			
- individually impaired	121	(121)	-
	9,398	(121)	9,277

The movements in the loss allowances in respect of trade receivables are disclosed in Note 9 to the combined financial statements.

The Group believes that no impairment allowance is necessary in respect of other trade receivables because they are companies with good collection track record and no recent history of default.

Other Receivables

Other receivables are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial and hence, it is not provided for.

12. ACCOUNTANTS' REPORT *(Cont'd)*

**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)**

41. FINANCIAL INSTRUMENTS (CONT'D)

41.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit Risk (Cont'd)

(iii) Assessment of Impairment Losses (Cont'd)

Fixed Deposits with a Licensed Bank, Cash and Bank Balances

The Group considers the banks and financial institutions have low credit risks. Therefore, the Group is of the view that the loss allowance is immaterial and hence, it is not provided for.

(c) Liquidity Risk

Liquidity risk arises mainly from general funding and business activities. The Group practises prudent risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)****(c) Liquidity Risk (Cont'd)***Maturity Analysis*

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):-

	Effective Interest Rate %	Carrying Amount RM'000	Contractual Undiscounted Cash Flows RM'000	Within 1 Year RM'000	1 – 5 Years RM'000	Over 5 Years RM'000
31.3.2016						
Non-derivative Financial Liabilities						
Trade payables	-	13,312	13,312	13,312	-	-
Other payables and accruals	-	2,910	2,910	2,910	-	-
Amount owing to directors	-	453	453	453	-	-
Bankers' acceptance	3.95 - 5.11	5,136	5,136	5,136	-	-
Hire purchase payables	4.37 - 7.60	9,143	9,708	5,292	4,416	-
Term loans	4.55 - 7.35	10,455	13,804	1,438	4,602	7,764
Bank overdrafts	7.22 - 7.85	733	733	733	-	-
Contract liability	-	92	92	21	71	-
		42,234	46,148	29,295	9,089	7,764

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)****(c) Liquidity Risk (Cont'd)***Maturity Analysis (Cont'd)*

	Effective Interest Rate %	Carrying Amount RM'000	Contractual Undiscounted Cash Flows RM'000	Within 1 Year RM'000	1 – 5 Years RM'000	Over 5 Years RM'000
31.3.2017						
<u>Non-derivative Financial Liabilities</u>						
Trade payables	-	21,866	21,866	21,866	-	-
Other payables and accruals	4.68	18,709	19,299	11,799	7,500	-
Amount owing to a director	-	10	10	10	-	-
Bankers' acceptance	3.58 - 5.10	7,381	7,381	7,381	-	-
Hire purchase payables	4.37 - 7.60	17,489	19,701	6,918	12,783	-
Term loans	4.30 - 6.54	23,587	30,592	2,695	10,781	17,116
Bank overdrafts	7.22 - 7.79	2,164	2,164	2,164	-	-
Contract liability	-	103	103	29	74	-
		91,309	101,116	52,862	31,138	17,116

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)****(c) Liquidity Risk (Cont'd)***Maturity Analysis (Cont'd)*

	Effective Interest Rate %	Carrying Amount RM'000	Contractual Undiscounted Cash Flows RM'000	Within 1 Year RM'000	1 – 5 Years RM'000	Over 5 Years RM'000
31.3.2018						
<u>Non-derivative Financial Liabilities</u>						
Trade payables	-	24,871	24,871	24,871	-	-
Other payables and accruals	4.68 - 6.00	13,578	13,736	12,967	769	-
Amount owing to a director	-	1	1	1	-	-
Bankers' acceptance	3.66 - 5.19	7,829	7,829	7,829	-	-
Hire purchase payables	4.33 - 6.61	21,129	23,787	6,760	17,027	-
Term loans	4.55 - 6.85	29,400	40,337	3,753	15,016	21,568
Bank overdrafts	7.47 - 7.90	473	473	473	-	-
Contract liability	-	74	74	29	45	-
		97,355	111,108	56,683	32,857	21,568

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)****(c) Liquidity Risk (Cont'd)***Maturity Analysis (Cont'd)*

	Effective Interest Rate %	Carrying Amount RM'000	Contractual Undiscounted Cash Flows RM'000	Within 1 Year RM'000	1 – 5 Years RM'000	Over 5 Years RM'000
31.3.2019						
<u>Non-derivative Financial Liabilities</u>						
Trade payables	-	25,389	25,389	25,389	-	-
Other payables and accruals	6.00	7,647	7,723	7,180	543	-
Bankers' acceptance	3.89 - 4.09	948	948	948	-	-
Hire purchase payables	4.33 - 6.80	18,533	20,425	6,510	13,915	-
Term loans	4.67 - 6.89	29,832	40,609	3,885	15,261	21,463
Bank overdrafts	7.47 - 7.90	458	458	458	-	-
Contract liability	-	136	136	49	87	-
		82,943	95,688	44,419	29,806	21,463

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.2 CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that entities within the Group will be able to maintain an optimal capital structure so as to support its businesses and maximise shareholders value. To achieve this objective, the Group may make adjustments to the capital structure in view of changes in economic conditions, such as adjusting the amount of dividend payment, returning of capital to shareholders or issuing new shares.

The Group manages its capital based on debt-to-equity ratio that complies with debt covenants and regulatory, if any. The debt-to-equity ratio is calculated as net debt divided by total equity. The Group includes within net debt, loans and borrowings from third parties and financial institutions less cash and cash equivalents. Capital includes equity attributable to the owners of the parent and non-controlling interest. The debt-to-equity ratio of the Group at the end of the reporting period was as follows:-

	As at 31 March			
	2016	2017	2018	2019
	RM'000	RM'000	RM'000	RM'000
Other payables (Note 19)	-	11,910	7,778	670
Bankers' acceptance (Note 24)	5,136	7,381	7,829	948
Hire purchase payables (Note 25)	9,143	17,489	21,129	18,533
Term loans (Note 26)	10,455	23,587	29,400	29,832
Bank overdrafts (Note 27)	733	2,164	473	458
	<u>25,467</u>	<u>62,531</u>	<u>66,609</u>	<u>50,441</u>
Less: Fixed deposits with a licensed bank (Note 13)	-	(140)	(82)	(22)
Less: Cash and bank balances	<u>(2,055)</u>	<u>(2,675)</u>	<u>(5,107)</u>	<u>(6,164)</u>
Net debt	<u>23,412</u>	<u>59,716</u>	<u>61,420</u>	<u>44,255</u>
Total equity	<u>20,730</u>	<u>25,492</u>	<u>30,991</u>	<u>38,734</u>
Debt-to-equity ratio	<u>113%</u>	<u>234%</u>	<u>198%</u>	<u>114%</u>

There was no change in the Group's approach to capital management during the financial years.

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.3 CLASSIFICATION OF FINANCIAL INSTRUMENTS**

	As at 31 March		
	2016	2017	2018
	RM'000	RM'000	RM'000
Financial Assets			
<u>Held-to-maturity Financial Asset</u>			
Fixed deposits with a licensed bank (Note 13)	-	140	82
<u>Loans and Receivables Financial Assets</u>			
Trade receivables (Note 9)	4,871	7,792	8,968
Other receivables (Note 10)	1,107	851	4,957
Amount owing by directors (Note 11)	122	-	-
Amount owing by shareholders (Note 12)	453	-	-
Cash and bank balances	2,055	2,675	5,107
	8,608	11,318	19,032
Financial Liabilities			
<u>Other Financial Liabilities</u>			
Trade payables (Note 22)	13,312	21,866	24,871
Other payables and accruals (Note 19)	2,910	18,709	13,578
Contract liability (Note 21)	92	103	74
Amount owing to directors (Note 23)	453	10	1
Bankers' acceptance (Note 24)	5,136	7,381	7,829
Hire purchase payables (Note 25)	9,143	17,489	21,129
Term loans (Note 26)	10,455	23,587	29,400
Bank overdrafts (Note 27)	733	2,164	473
	42,234	91,309	97,355

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.3 CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONT'D)**

	31 March
	2019
	RM'000
Financial Assets	
<u>Amortisation Cost</u>	
Trade receivables (Note 9)	9,277
Other receivables (Note 10)	247
Fixed deposits with a licensed bank (Note 13)	22
Cash and bank balances	6,164
	<u>15,710</u>
Financial Liabilities	
<u>Amortisation Cost</u>	
Trade payables (Note 22)	25,389
Other payables and accruals (Note 19)	7,647
Contract liability (Note 21)	136
Bankers' acceptance (Note 24)	948
Hire purchase payables (Note 25)	18,533
Term loans (Note 26)	29,832
Bank overdrafts (Note 27)	458
	<u>82,943</u>

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.4 GAINS OR LOSSES ARISING FROM FINANCIAL INSTRUMENTS**

	FYE 31 March		
	2016	2017	2018
	RM'000	RM'000	RM'000
Financial Assets			
<u>Held-to-maturity Financial Asset</u>			
Net gains recognised in profit or loss	2	4	11
<u>Loans and Receivables Financial Assets</u>			
Net gains/(losses) recognised in profit or loss	2	3	(136)
Financial Liabilities			
<u>Other Financial Liabilities</u>			
Net losses recognised in profit or loss	(1,509)	(1,222)	(3,100)
			31 March
			2019
			RM'000
Financial Assets			
<u>Amortisation Cost</u>			
Net losses recognised in profit or loss			(120)
Financial Liabilities			
<u>Amortisation Cost</u>			
Net losses recognised in profit or loss			(3,172)

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.4 FAIR VALUE INFORMATION**

The fair values of the financial assets and financial liabilities of the Group which are maturing within the next 12 months approximated their carrying amounts due to the relatively short-term maturity of the financial instruments or repayable on demand terms.

As the Group does not have any financial instruments carried at fair value, the following table sets out only the fair value profile of financial instruments that are not carried at fair value at the end of the reporting period:-

	Fair Value of Financial Instruments not Carried at Fair Value			Total Fair Value RM'000	Carrying Amount RM'000
	Level 1	Level 2	Level 3		
	RM'000	RM'000	RM'000		
31.3.2016					
<u>Financial Liabilities</u>					
Hire purchase payables	-	9,169	-	9,169	9,143
Term loans	-	10,455	-	10,455	10,455
31.3.2017					
<u>Financial Liabilities</u>					
Other payable	-	11,654	-	11,654	11,910
Hire purchase payables	-	17,354	-	17,354	17,489
Term loans	-	23,587	-	23,587	23,587
31.3.2018					
<u>Financial Liabilities</u>					
Other payable	-	839	-	839	851
Hire purchase payables	-	21,149	-	21,149	21,129
Term loans	-	29,400	-	29,400	29,400
31.3.2019					
<u>Financial Liabilities</u>					
Other payable	-	668	-	668	670
Hire purchase payables	-	18,555	-	18,555	18,533
Term loans	-	29,832	-	29,832	29,832

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****41. FINANCIAL INSTRUMENTS (CONT'D)****41.4 FAIR VALUE INFORMATION (CONT'D)****(a) Fair Value of Financial Instruments Not Carried at Fair Value**

The fair values, which are for disclosure purposes, have been determined using the following basis:-

- (i) The fair value of the Group's terms loans that carry floating interest rates approximated their carrying amounts as they are repriced to market interest rates on or near the reporting date.
- (ii) The fair values of other payable and hire purchase payables are determined by discounting the relevant cash flows using current market interest rates for similar instruments at the end of the reporting period. The interest rates used to discount the estimated cash flows are as follows:-

	As at 31 March			
	2016	2017	2018	2019
	%	%	%	%
Other payable	-	4.72	6.00	6.00
Hire purchase payables	5.01 - 6.42	5.01 - 6.61	5.01 - 6.42	5.82 - 6.40

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12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****42. SIGNIFICANT EVENT OCCURRING AFTER THE REPORTING PERIOD**

On 21 September 2018, SDS B&C entered into a conditional Share Sales Agreement with the selling shareholder of City Cake to acquire 51% of equity interest in City Cake comprising 62,450 ordinary shares for a purchase consideration of RM445,200, which was satisfied by the issuance of 42,890 shares in SDS Food at an issue price of RM10.38 per share.

Subsequently, the Company entered into three (3) conditional Share Sales Agreements on 21 September 2018 with the selling shareholders of SDS Food, SDS Enterprise and Super Arrow respectively to acquire the entire equity interest :-

- (i) To acquire the entire equity interest in SDS Food comprising 2,792,890 shares for a purchase consideration of RM28,994,890 after taking into consideration the acquisition of 51% equity interest in City Cake, which was satisfied by the issuance of 285,752,600 shares in the Company at an issue price of approximately RM0.10 per Share.
- (ii) To acquire the entire equity interest in SDS Enterprise comprising 2 shares for a purchase consideration of RM26,360, which was satisfied by the issuance of 263,600 shares in the Company at an issue price of RM0.10 per Share.
- (iii) To acquire the entire equity interest in Super Arrow comprising 100 shares for a purchase consideration of RM1,551,080, which was satisfied by the issuance of 15,510,800 shares in the Company at an issue price of RM0.10 per Share.

The purchase considerations of City Cake, SDS Food, SDS Enterprise and Super Arrow were arrived at on a willing-buyer willing-seller basis. The Acquisition of City Cake is completed on 4 July 2019 and the Acquisition of SDS Food, Acquisition of SDS Enterprise and Acquisition of Super Arrow are completed on 5 July 2019. Subsequently, City Cake becomes a subsidiary of SDS B&C and SDS Food, SDS Enterprise and Super Arrow become wholly-owned subsidiaries of the Company thereafter.

43. CHANGES IN ACCOUNTING POLICIESInitial Application of MFRS 9

The Group has adopted MFRS 9 without restating any comparative information (transitional exemption). Therefore, the financial impacts arising from the new classification and measurement of financial instruments, and the new impairment requirements are not reflected in the combined statements of financial position as at 31 March 2016, 2017 and 2018; but are recognised in the opening combined statements of financial position on 1 April 2018 (date of initial application of MFRS 9).

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****43. CHANGES IN ACCOUNTING POLICIES (CONT'D)**Initial Application of MFRS 9 (Cont'd)

The main impacts resulting from the changes made are summarised below:-

	< ----- Classification and ----- > Carrying Amount		
	Under MFRS 139 RM'000	Under MFRS 9 RM'000	Transition Adjustment RM'000
(a) Reclassification from loans and receivables to amortised cost	LAR 19,032	AC 19,032	-
Reclassification from held-to-maturity financial asset to amortised cost	HTM 82	AC 82	-

The Group reclassified all financial assets under loans and receivables and held-to-maturity financial asset to amortised cost as it fulfilled the following criteria:-

- (i) The assets held within a business model whose objective is to hold the asset in order to collect the contractual cash flows; and
- (ii) The contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Reclassification from other financial liabilities to amortised cost	OFL (97,355)	AC (97,355)	-
---	-----------------	----------------	---

The Group reclassified all other financial liabilities to amortised cost as all other financial liabilities are not:-

- (i) At fair value through profit or loss;
- (ii) Financial guarantee contract; and
- (iii) A commitment to provide loan at below-market interest rate.

LAR ~ Loans and receivables financial assets
 HTM ~ Held-to-maturity financial asset
 AC ~ Amortised cost financial assets/liabilities
 OFL ~ Other financial liabilities

12. ACCOUNTANTS' REPORT (Cont'd)**SDS GROUP BERHAD
NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)****43. CHANGES IN ACCOUNTING POLICIES (CONT'D)**Initial Application of MFRS 9 (Cont'd)

The main impacts resulting from the changes made are summarised below (Cont'd):-

- (c) The Group has changed its impairment loss methodology from the 'incurred loss' approach to the 'expected credit loss' approach upon the adoption of MFRS 9. Under this new approach, the Group has accounted for the expected credit losses of its financial assets measured at amortised cost to reflect their changes in credit risk since initial recognition. Also, the Group has applied a simplified approach to measure the loss allowance of its trade receivables as permitted by MFRS 9.

There were no material financial impacts upon the transition to MFRS 9 at the date of initial application other than the new classification of financial assets and changes in impairment loss methodology as disclosed above.

Initial Application of MFRS 15

The Group has adopted MFRS 15 with modified retrospective application using the practical expedient of which the cumulative financial impacts, if any, are recognised in the opening combined statements of financial position on 1 April 2018 (date of initial application of MFRS 15). The Group has chosen to apply MFRS 15 retrospectively only to contracts that were not completed at 1 April 2018.

The comparative information was not restated and continues to be reported under MFRS 118 and related Interpretations. The Group has concluded that MFRS 15 did not have a significant impact on the results and financial position of the Group.

Under MFRS 15, amount due to customers represents the obligation of the Group to transfer goods or services to the customers for which considerations have been received from the customers. Therefore, upon adoption of MFRS 15, the Group reclassified RM74,450 from deferred income to contract liability as at 1 April 2018.

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12. ACCOUNTANTS' REPORT *(Cont'd)*

SDS GROUP BERHAD

STATEMENT BY DIRECTORS

We, Tan Kim Chai and Tan Kim Seng, being two of the directors of SDS Group Berhad, state that, in the opinion of the directors, the combined financial statements set out on pages 4 to 116 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and Prospectus Guidelines so as to give a true and fair view of the financial position of SDS Group Berhad as at 31 March 2016, 2017, 2018 and 2019 and of their financial performance and cash flows for the financial years then ended.

Signed in accordance with a resolution of the directors dated **18 JUL 2019**

On behalf of the Board,



Tan Kim Chai



Tan Kim Seng

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION



Crowe Malaysia PLT

(LLP0018817-LCA & AF 1018)

Chartered Accountants

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Fax +6 1700 813 460

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Date: **24 JUL 2019**

The Board of Directors

SDS Group Berhad

No. 5, Jalan Selatan 8

Off Jalan Kempas Lama

Kawasan Perusahaan Ringan Pulau

81200 Johor Bahru

Johor

Dear Sirs

**SDS GROUP BERHAD ("SDSG" OR THE "COMPANY")
REPORT ON THE COMPILATION OF PRO FORMA COMBINED FINANCIAL
INFORMATION INCLUDED IN A PROSPECTUS**

We have completed our assurance engagement to report on the compilation of pro forma financial information of SDSG and its subsidiaries (collectively known as the "Group") prepared by the Board of Directors of the Company. The pro forma combined financial information for which we have stamped for the purpose of identification consists of:-

- a) the pro forma combined Financial Position as at 31 March 2019;
- b) the related notes as set out in the accompanying statements.

The pro forma combined financial information has been prepared for inclusion in the prospectus of SDSG in connection with the listing of and quotation for the entire issued share capital of SDSG on the Ace Market of Bursa Securities ("Listing").

The applicable criteria on the basis of which the Board of Directors has compiled the pro forma financial information are set out in Note 1 of the pro forma information and in accordance with the *Prospectus Guidelines* issued by the Securities Commission Malaysia (the "Guidelines").

The pro forma combined financial information has been compiled by the Board of Directors to illustrate the impact of the transactions as set out in Note 2 of the pro forma combined financial information, on the financial position as at 31 March 2019 as if the listing has been completed as at 31 March 2019. As part of this process, information about the financial position has been extracted by the Board of Directors from the audited combined financial statements of the Group for the financial year ended 31 March 2019.

THE BOARD OF DIRECTORS' RESPONSIBILITIES

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

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (*Cont'd*)



REPORTING ACCOUNTANTS' INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirement of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standard Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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

REPORTING ACCOUNTANTS' RESPONSIBILITIES

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

We conducted our engagement in accordance with the International Standard on Assurance Engagement (ISAE) 3420, *Assurance Engagement to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the Board of Directors has compiled, in all material respects, the pro forma combined financial information on the basis as described in Note 1 of the pro forma combined financial information and in accordance with the requirements of the Guidelines.

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

The purpose of pro forma combined financial information included in a prospectus 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 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma combined 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 the Board of Directors in the compilation of the pro forma combined financial information provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

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

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (*Cont'd*)



REPORTING ACCOUNTANTS' RESPONSIBILITIES (CONT'D)

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

The engagement also involves evaluating the overall presentation of the pro forma combined 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, pro forma combined financial information of the Group has been compiled, in all material respects, on the basis as described in Note 1 of the pro forma combined financial information and in accordance with the requirements of the Guidelines.

OTHER MATTER

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

Yours faithfully

A handwritten signature in cursive script that reads "Crowe".

Crowe Malaysia PLT
LLP0018817-LCA & AF 1018
Chartered Accountants

24 JUL 2019

Johor Bahru

A handwritten signature in cursive script that reads "Fong Kiat Keong".

Fong Kiat Keong
03048/06/2021 J
Chartered Accountant

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (*Cont'd*)

**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION**

1. BASIS OF PREPARATION

The pro forma combined financial information of the Group is prepared based on the audited combined financial statements for the financial year ended 31 March 2019.

The financial statements used in the preparation of this pro forma combined financial information were not subject to any audit qualification or emphasis of matter.

The pro forma combined financial information has been prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, and in a manner consistent with the accounting policies of the Group after incorporating adjustments that are appropriate for the preparation of the pro forma combined financial information.

The financial statements of Super Arrow Pte. Ltd. have been prepared in accordance with Financial Reporting Standards in Singapore. In the context of Super Arrow Pte Ltd, there is no significant difference between Malaysia Financial Reporting Standards in Malaysia and Financial Reporting Standards in Singapore and neither adjustment is required nor reconciliation is presented for the financial statements prepared under these two (2) accounting standards.

The pro forma combined financial information has been prepared using the merger method. Under the merger method,

- (i) if the cost of merger is lower than the nominal value of the share capital of the subsidiaries acquired, a credit balance will arise and be treated as merger reserve under the pro forma combined statements of financial position.
- (ii) if the cost of merger exceeds the nominal value of the share capital of the subsidiaries acquired, a debit balance will arise and be treated as merger deficit under the pro forma combined statements of financial position.

The pro forma combined financial information together with the accompanying notes thereto, has been prepared solely to illustrate the pro forma combined statements of financial position of the Group as at 31 March 2019 which incorporate the effects of the listing scheme as described below had the scheme been implemented.

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

SDS GROUP BERHAD AND ITS SUBSIDIARIES PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)

1. BASIS OF PREPARATION (CONT'D)

The Listing Scheme comprises the following:

(i) Acquisition of Subsidiaries

- (a) Acquisition by SDS B&C of 51% equity interest in City Cake for a purchase consideration of RM445,200 to be satisfied by the issuance of 42,890 shares in SDS Food at an issue price of RM10.38 per share.
- (b) Acquisition by SDSG of the entire equity interest in SDS Food for a purchase consideration of RM28,994,890 after taking into consideration the acquisition of 51% equity interest in City Cake, to be satisfied by the issuance of 285,752,600 shares in the Company at an issue price of approximately RM0.10 per Share.
- (c) Acquisition by SDSG of the entire equity interest in SDS Enterprise for a purchase consideration of RM26,360 to be satisfied by the issuance of 263,600 shares in the Company at an issue price of RM0.10 per Share.
- (d) Acquisition by SDSG of the entire equity interest in Super Arrow for a purchase consideration of RM1,551,080 to be satisfied by the issuance of 15,510,800 shares in the Company at an issue price of RM0.10 per Share.

(ii) Public Issue

The Public Issue of 104,296,800 new Shares, representing approximately 25.7% of the enlarged share capital of SDSG at an issue price of RM0.23 per Share to be allocated in the following manner:

- 20,291,200 new Shares available for application by the Malaysian public;
- 23,132,000 new Shares available for application by the eligible directors, employees and business associates/persons who have contributed to the success of the Group; and
- 60,873,600 new Shares available for application by way of private placement to selected investors.

(iii) Listing

The admission of the listing of and quotation for the entire enlarged issued and paid-up share capital of RM54,560,604 comprising 405,823,900 Shares on the ACE Market of Bursa Securities will be sought.

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)****2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019**

	Note	SDSG Audited as at 31 March 2019 RM'000	** Adjustments for the Acquisition of Subsidiaries RM'000	Pro Forma I After the Acquisition of Subsidiaries RM'000	Adjustment for the Public Issue RM'000	Pro Forma II After Pro Forma I and Public Issue RM'000	Adjustment for the Utilisation of Proceeds of Proceeds RM'000	Pro Forma III After Pro Forma II and Utilisation of Proceeds of Proceeds RM'000
ASSETS								
NON-CURRENT ASSETS								
Property, plant and equipment	2.3	-	95,529	95,529	-	95,529	6,000	101,529
Goodwill		-	162	162	-	162	-	162
Deferred tax assets		-	1,127	1,127	-	1,127	-	1,127
		-		96,818		96,818		102,818
CURRENT ASSETS								
Inventories		-	5,203	5,203	-	5,203	-	5,203
Trade receivables		-	9,277	9,277	-	9,277	-	9,277
Other receivables, deposits and prepayments		17	5,809	5,826	-	5,826	-	5,826
Current tax assets		-	998	998	-	998	-	998
Fixed deposits with a licensed bank		-	22	22	-	22	-	22
Cash and bank balances	2.4	13	6,151	6,164	23,988	30,152	(16,200)	13,952
		30		27,490		51,478		35,278
TOTAL ASSETS		30		124,308		148,296		138,096

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)****2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)**

	Note	SDSG Audited as at 31 March 2019 RM000	** Adjustments for the Acquisition of Subsidiaries RM000	Pro Forma I After the Acquisition of Subsidiaries RM000	Adjustment for the Public Issue RM000	Pro Forma II After Pro Forma I and Public Issue RM000	Adjustment for the Utilisation of Proceeds of Proceeds RM000	Pro Forma III After Pro Forma II and Utilisation of Proceeds RM000
EQUITY AND LIABILITIES								
EQUITY								
Share capital	2.5	*	30,573	30,573	23,988	54,561	(1,188)	53,373
Merger deficit	2.6	-	(27,760)	(27,760)	-	(27,760)	-	(27,760)
Translation reserve		-	454	454	-	454	-	454
(Accumulated loss)/Retained profits	2.7	(12)	34,967	34,955	-	34,955	(2,012)	32,943
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY								
NON-CONTROLLING INTERESTS								
TOTAL EQUITY		(12)	514	38,222	-	62,210	-	59,010
				514		514		514
				38,736		62,724		59,524
NON-CURRENT LIABILITIES								
Long-term borrowings	2.8	-	40,521	40,521	-	40,521	(4,660)	35,861
Other payable		-	502	502	-	502	-	502
Deferred tax liabilities		-	2,112	2,112	-	2,112	-	2,112
Contract liability		-	87	87	-	87	-	87
		-		43,222		43,222		38,562

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)****2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)**

	Note	SDSG Audited as at 31 March 2019 RM'000	** Adjustments for the Acquisition of Subsidiaries RM'000	Pro Forma I After the Acquisition of Subsidiaries RM'000	Adjustment for the Public Issue RM'000	Pro Forma II After Pro Forma I and Public Issue RM'000	Adjustment for the Utilisation of Proceeds of Proceeds RM'000	Pro Forma III After Pro Forma II and Utilisation of Proceeds of Proceeds RM'000
CURRENT LIABILITIES								
Trade payables		-	25,389	25,389	-	25,389	-	25,389
Other payables and accruals		42	7,369	7,411	-	7,411	-	7,411
Short-term borrowings	2.9	-	8,792	8,792	-	8,792	(2,340)	6,452
Bank overdrafts		-	458	458	-	458	-	458
Contract liability		-	49	49	-	49	-	49
Current tax liabilities		-	251	251	-	251	-	251
TOTAL LIABILITIES		42		42,350		42,350		40,010
TOTAL EQUITY AND LIABILITIES		42		85,572		85,572		78,572
		30		124,308		148,296		138,096
Number of ordinary shares		^		301,527		405,824		405,824
(Net liabilities)/Net assets ("(NL)/NA") (RM'000)		(12)		38,736		62,724		59,524
(NL)/NA per ordinary share (RM)		(0.12)		0.13		0.15		0.15
Gearing ratio (times)		-		1.3		0.8		0.7

Notes:-

- * - Represents RM10 only
- ^ - Denotes 100 Shares
- ** - Details of adjustments are set out in Section 2.1 of this report

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)****2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)****2.1 Pro Forma I**

The details of Adjustments for the Acquisition of Subsidiaries are as follows:-

		Adjustment for Acquisition of Subsidiaries					Pro Forma A	
SDS Food Group	RM'000	SDS Enterprise	RM'000	Super Arrow	RM'000	City Cake	RM'000	Total
	95,149	-	-	-	-	380	95,529	95,529
	162	-	-	-	-	-	162	162
	1,094	33	-	-	-	-	1,127	1,127
	96,405	33	-	-	-	380	96,818	96,818

ASSETS**Non-Current Assets**

Property, plant and equipment

Goodwill

Deferred tax assets

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)****2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)****2.1 Pro Forma I (Cont'd)**

The details of Adjustments for the Acquisition of Subsidiaries are as follows (Cont'd):-

		Adjustment for Acquisition of Subsidiaries							
		←						→	
	SDS Food Group RM'000	Enterprise RM'000	SDS RM'000	Super Arrow RM'000	City Cake RM'000	Total RM'000	Adjustments RM'000	Pro Forma A Total RM'000	
Current Assets									
Inventories	5,192	-	-	-	13	5,205	(2)	5,203	
Trade receivables	7,071	17	2,143	46		9,277	-	9,277	
Other receivables, deposits and prepayments	5,714	-	-	-	135	5,849	(40)	5,809	
Amount owing by related companies	231	-	-	-	-	231	(231)	-	
Current tax assets	914	15	-	-	69	998	-	998	
Fixed deposits with a licensed bank	22	-	-	-	-	22	-	22	
Cash and bank balances	4,553	123	739	661		6,076	75	6,151	
	23,697	155	2,882	924		27,658		27,460	
Total Assets	120,102	188	2,882	1,304		124,476		124,278	

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)****2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)****2.1 Pro Forma I (Cont'd)**

The details of Adjustments for the Acquisition of Subsidiaries are as follows (Cont'd):-

	SDS Food Group RM'000	Adjustment for Acquisition of Subsidiaries				Pro Forma A Total RM'000
		SDS Enterprise RM'000	Super Arrow RM'000	City Cake RM'000	Adjustments RM'000	
EQUITY AND LIABILITIES						
Equity						
Share capital	2,750	*	*	123	-	2,873
Translation reserve	-	-	453	-	1	454
Retained profits/(Accumulated loss)	32,731	14	1,753	925	(2)	35,421
Equity attributable to owners of the Company	35,481	14	2,206	1,048		38,748
Non-controlling interests	-	-	-	-	-	-
Total Equity	35,481	14	2,206	1,048		38,748

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)****2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)****2.1 Pro Forma I (Cont'd)**

The details of Adjustments for the Acquisition of Subsidiaries are as follows (Cont'd):-

		Adjustment for Acquisition of Subsidiaries					
Non-Current Liabilities	SDS Food Group RM'000	SDS Enterprise RM'000	Super Arrow RM'000	City Cake RM'000	Total RM'000	Adjustments RM'000	Pro Forma A Total RM'000
Long-term borrowings	40,521	-	-	-	40,521	-	40,521
Other payable	502	-	-	-	502	-	502
Deferred tax liabilities	2,079	-	-	34	2,113	(1)	2,112
Contract liability	-	87	-	-	87	-	87
	43,102	87	-	34	43,223		43,222

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)****2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)****2.1 Pro Forma I (Cont'd)**

The details of Adjustments for the Acquisition of Subsidiaries are as follows (Cont'd):-

	Adjustment for Acquisition of Subsidiaries										
	←					→					
	SDS Food Group	Enterprise	SDS	Super Arrow	City Cake	Total	Adjustments	Pro Forma A		Total	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	
Current Liabilities											
Trade payables	24,861	-	-	517	11	25,389	-	-	-	25,389	
Other payables and accruals	7,201	38	-	57	113	7,409	(40)	(40)	-	7,369	
Amount owing to related companies	-	-	-	58	98	156	(156)	(156)	-	-	
Short-term borrowings	8,792	-	-	-	-	8,792	-	-	-	8,792	
Bank overdrafts	458	-	-	-	-	458	-	-	-	458	
Contract liability	-	49	-	-	-	49	-	-	-	49	
Current tax liabilities	207	-	-	44	-	251	-	-	-	251	
	41,519	87	-	676	222	42,504				42,308	
Total Liabilities	84,621	174	-	676	256	85,727				85,530	
Total Equity and Liabilities	120,102	188	-	2,882	1,304	124,476				124,278	

Note:-

* - Denotes amount less than RM500

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)
**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)**
2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)
2.1 Pro Forma I (Cont'd)

	← Adjustment for Acquisition of Subsidiaries (Cont'd) →		
	Pro Forma A Total RM'000	Effect of Acquisition of Subsidiaries RM'000	Pro Forma B After Pro Forma A and Effect of Acquisition of Subsidiaries RM'000
ASSETS			
Non-Current Assets			
Property, plant and equipment	95,529	-	95,529
Goodwill	162	-	162
Deferred tax assets	1,127	-	1,127
	<u>96,818</u>	-	<u>96,818</u>
Current Assets			
Inventories	5,203	-	5,203
Trade receivables	9,277	-	9,277
Other receivables, deposits and prepayments	5,809	-	5,809
Current tax assets	998	-	998
Fixed deposits with a licensed bank	22	-	22
Cash and bank balances	6,151	-	6,151
	<u>27,460</u>	-	<u>27,460</u>
Asset classified as held for sale	-	-	-
	<u>27,460</u>	-	<u>27,460</u>
Total Assets	<u>124,278</u>	-	<u>124,278</u>

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)
**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)**
2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)
2.1 Pro Forma I (Cont'd)

	← Adjustment for Acquisition of Subsidiaries (Cont'd) →		
	Pro Forma A Total RM'000	Effect of Acquisition of Subsidiaries RM'000	Pro Forma B After Pro Forma A and Effect of Acquisition of Subsidiaries RM'000
EQUITY AND LIABILITIES			
Equity			
Share capital	2,873	27,700	30,573
Merger deficit	-	(27,760)	(27,760)
Translation reserve	454	-	454
Retained profits	35,421	(454)	34,967
Equity attributable to owners of the company	38,748	-	38,234
Non-controlling interests	-	514	514
Total Equity	38,748	-	38,748
Non-Current Liabilities			
Long-term borrowings	40,521	-	40,521
Other payable	502	-	502
Deferred tax liabilities	2,112	-	2,112
Contract liability	87	-	87
	43,222	-	43,222
Current Liabilities			
Trade payables	25,389	-	25,389
Other payables and accruals	7,369	-	7,369
Short-term borrowings	8,792	-	8,792
Bank overdrafts	458	-	458
Contract liability	49	-	49
Current tax liabilities	251	-	251
	42,308	-	42,308
Total Liabilities	85,530	-	85,530
Total Equity and Liabilities	124,278	-	124,278

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)**

2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)

2.1 Pro Forma I (Cont'd)

Pro Forma I incorporates the effects of the following, the adjustments of which are as set out in Pro Forma A and B.

- (a) Acquisition by SDS B&C of 51% equity interest in City Cake for a purchase consideration of RM445,200 to be satisfied by the issuance of 42,890 shares in SDS Food at an issue price of RM10.38 per share.
- (b) Acquisition by SDSG of the entire equity interest in SDS Food for a purchase consideration of RM28,994,890 after taking into consideration the acquisition of 51% equity interest in City Cake, to be satisfied by the issuance of 285,752,600 shares in the Company at an issue price of approximately RM0.10 per Share.
- (c) Acquisition by SDSG of the entire equity interest in SDS Enterprise for a purchase consideration of RM26,360 to be satisfied by the issuance of 263,600 shares in the Company at an issue price of RM0.10 per Share.
- (d) Acquisition by SDSG of the entire equity interest in Super Arrow for a purchase consideration of RM1,551,080 to be satisfied by the issuance of 15,510,800 shares in the Company at an issue price of RM0.10 per Share.

The results were combined using the merger method. Under the merger method, the difference between the acquisition cost and the nominal value of the share capital of the subsidiary is accounted for as merger reserve or deficit.

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13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

SDS GROUP BERHAD AND ITS SUBSIDIARIES PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)

2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)

2.2 Pro Forma II

Pro forma II incorporates the effects of Pro forma I, the Public Issue of 104,296,800 new Shares, at issue price of RM0.23 per Share, payable in full on application and the utilisation of proceeds. The proceeds from the Public Issue will be utilised as follows:-

Details of the utilisation of proceeds	Amount of proceeds		Estimated timeframe for utilisation from the date of Listing
	RM'000	%	
Capital expenditure	6,000	25.0	Within twenty four (24) months
Repayment of bank borrowings	7,000	29.2	Within six (6) months
General working capital	7,788	32.5	Within twelve (12) months
Estimated listing expenses * ^	3,200	13.3	Immediately
Total	23,988	100.0	

Notes:-

* - If the actual listing expenses are higher than budgeted, the deficit will be funded out of the portion allocated for working capital. Conversely, if the actual listing expenses are lower than budgeted, the excess will be utilised for working capital purposes.

^ - The estimated listing expenses for the issue of the new Shares of RM1,188,000 will be offset against share capital and the remaining estimated listing expenses of approximately RM2,012,000 will be expensed off against the Statement of Profit or Loss and Other Comprehensive Income and this represents a one-off expenditure pursuant to the Public Issue.

MFRS 132 para 37 states that "The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that other would have been avoided."

Therefore, expenses that are directly attributable to the issue of new shares are accounted for as a deduction from share capital, such as underwriting commission, placement commission and service tax charged by the underwriters for the issuance of new shares in connection with the IPO exercise are captured as prepayments to be deducted against the share capital subsequently.

MFRS 132 para 38 states that "Transaction costs that relate jointly to more than one type of transaction are allocated to those transactions using a basis of allocation that is rational and consistent with similar transactions."

Accordingly, professional fees which are incurred for issuance of new shares in connection with the internal restructuring and IPO are allocated based on the number of new shares issued over the enlarged share capital.

For other listing expenses, they are charged to profit or loss directly as and when incurred as they are not directly related to the issuance of new shares.

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)
**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)**
2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)
2.3 Property, Plant and Equipment

	Cost RM'000	Accumulated Depreciation RM'000	Accumulated Impairment RM'000	Net Book Value RM'000
As at 31 March 2019				
Freehold land	17,808	-	-	17,808
Leasehold land	499	(22)	-	477
Buildings	23,069	(3,095)	(446)	19,528
Motor vehicles	29,602	(18,338)	-	11,264
Office equipment, furniture and renovation	23,644	(11,888)	-	11,756
Plant, machinery and factory equipment	59,762	(26,224)	-	33,538
Construction in progress	1,158	-	-	1,158
As per Pro Forma I/II	155,542	(59,567)	(446)	95,529
Utilisation of proceeds	6,000	-	-	6,000
As per Pro Forma III	161,542	(59,567)	(446)	101,529

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13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)**
2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)
2.4 Cash and Bank Balances

	RM'000
As at 31 March 2019	13
Acquisition of Subsidiaries	6,151
	<hr/>
As per Pro Forma I	6,164
Add: Proceeds from Public Issue	23,988
	<hr/>
As per Pro Forma II	30,152
Less: Utilisation of proceeds	
- Capital expenditure	(6,000)
- Repayment of bank borrowings	(7,000)
- Estimated listing expenses	(3,200)
	<hr/>
As per Pro Forma III	13,952
	<hr/>

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13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

SDS GROUP BERHAD AND ITS SUBSIDIARIES PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)

2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)

2.5 Share Capital

The movements in the issued and paid-up share capital of SDSG are as follow:-

	Number of Ordinary Shares ('000)	Amount of Share Capital RM'000
Ordinary shares with no Par Value		
As at 31 March 2019	[^]	[*]
Ordinary shares issued pursuant to the Acquisition of Subsidiaries	301,527	30,573
As per Pro Forma I	301,527	30,573
Public Issue	104,297	23,988
As per Pro Forma II	405,824	54,561
Estimated listing expenses [#]	-	(1,188)
As per Pro Forma III	405,824	53,373

Notes:-

[^] - Denotes 100 Shares

^{*} - Denotes RM10

[#] - The estimated listing expenses for the issue of the new Shares of RM1,188,000 will be offset against share capital and the remaining estimated listing expenses of approximately RM2,012,000 will be expensed off against the Statement of Profit or Loss and Other Comprehensive Income and this represents a one-off expenditure pursuant to the Public Issue.

MFRS 132 para 37 states that "The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction that other would have been avoided."

Therefore, expenses that are directly attributable to the issue of new shares are accounted for as a deduction from share capital, such as underwriting commission, placement commission and service tax charged by the underwriters for the issuance of new shares in connection with the IPO exercise are captured as prepayments to be deducted against the share capital subsequently.

MFRS 132 para 38 states that "Transaction costs that relate jointly to more than one type of transaction are allocated to those transactions using a basis of allocation that is rational and consistent with similar transactions."

Accordingly, professional fees which are incurred for issuance of new shares in connection with the internal restructuring and IPO are allocated based on the number of new shares issued over the enlarged share capital.

For other listing expenses, they are charged to profit or loss directly as and when incurred as they are not directly related to the issuance of new shares.

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

SDS GROUP BERHAD AND ITS SUBSIDIARIES PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)

2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)

2.6 Merger Deficit

The merger deficit arose from the acquisition of City Cake, SDS Food, SDS Enterprise and Super Arrow using the merger method of accounting.

	RM'000	RM'000
Cost of investment		
Investment in City Cake at the date of acquisition	445	
Elimination of City Cake's share capital	(62)	383
Investment in SDS Food at the date of acquisition	28,995	
Investment in SDS Enterprise at the date of acquisition	26	
Investment in Super Arrow at the date of acquisition	1,551	30,572
		30,955
Elimination of subsidiaries' share capital		(3,195)
As per Pro Forma I/II/III		27,760

2.7 (Accumulated Loss)/Retained Profits

	RM'000
As at 31 March 2019	(12)
Acquisition of Subsidiaries	34,967
As per Pro Forma I/II	34,955
Estimated listing expenses	(2,012)
As per Pro Forma III	32,943

2.8 Long-Term Borrowings

	RM'000
As at 31 March 2019	-
Acquisition of Subsidiaries	40,521
As per Pro Forma I/II	40,521
Utilisation of proceeds	(4,660)
As per Pro Forma III	35,861

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (Cont'd)

**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)**
2. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION OF THE GROUP AS AT 31 MARCH 2019 (CONT'D)
2.9 Short-Term Borrowings

	RM'000
As at 31 March 2019	-
Acquisition of Subsidiaries	8,792
As per Pro Forma I/II	8,792
Utilisation of proceeds	(2,340)
As per Pro Forma III	<u>6,452</u>

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13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED FINANCIAL INFORMATION (*Cont'd*)

**SDS GROUP BERHAD AND ITS SUBSIDIARIES
PRO FORMA COMBINED FINANCIAL INFORMATION (CONT'D)**

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted by the Board of Directors in accordance with a resolution dated **18 JUL 2019**

On behalf of the Board,



Tan Kim Chai



Tan Kim Seng

14. STATUTORY AND OTHER INFORMATION**14.1 SHARE CAPITAL**

- (a) As at the date of this Prospectus, we only have one class of shares, namely, ordinary shares, all of which rank *pari passu* with one another.
- (b) Save for the Pink Form Allocations as disclosed in Section 4.3.2,
 - (i) no Directors, employees or business associates/persons who have contributed to the success of our Group have been or are entitled to be given or have exercised any option to subscribe for any share of our Company or our subsidiaries; and
 - (ii) there is no scheme involving the employees of our Group in the shares of our Company or our subsidiaries.
- (c) Save for the new Shares issued and to be issued under the Acquisitions and Public Issue as disclosed in Sections 6.2 and 4.3 respectively and the 100 subscriber shares issued upon our incorporation, no shares of our Company or our subsidiaries have been issued or are proposed to be issued as fully or partly paid-up, in cash or otherwise, within the past 2 years immediately preceding the date of this Prospectus.
- (d) Other than our Public Issue as disclosed in Section 4.3, there is no intention on the part of our Directors to further issue any Shares.
- (e) As at the date of this Prospectus, we do not have any outstanding convertible debt securities.

14.2 CHANGES IN SHARE CAPITAL OF OUR SUBSIDIARIES**14.2.1 SDS Food**

SDS Food's share capital as at LPD is RM2,750,000 comprising 2,750,000 ordinary shares. The movements in the share capital of SDS Food since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration/ Type of issue	Cumulative share capital RM
25 June 1992	3	RM3/Subscribers' shares	3
19 May 1993	89,997	RM89,997/Issued for the acquisition of business from Sin Lee Hiang Bakery	90,000
1 July 1994	410,000	RM410,000/Capitalisation of advances from directors	500,000
30 June 2001	2,250,000	RM2,250,000/Issue for cash	2,750,000
4 July 2019	42,890	RM445,200/ Issued for the Acquisition of City Cake on behalf of SDS B&C	3,195,200

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SDS Food. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14. STATUTORY AND OTHER INFORMATION (Cont'd)**14.2.2 SDS Enterprise**

SDS Enterprise's share capital as at LPD is RM2 comprising 2 ordinary shares. The movements in the share capital of SDS Enterprise since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration/ Type of issue	Cumulative share capital RM
6 May 2015	2	RM2/Subscribers' shares	2

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SDS Enterprise. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.2.3 Super Arrow

Super Arrow's share capital as at LPD is SGD100 comprising 100 ordinary shares. The movements in the share capital of Super Arrow since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration/ Type of issue	Cumulative share capital SGD
1 October 2008	100	SGD100/Subscribers' shares	100

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Super Arrow. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.2.4 Daily Bakery

Daily Bakery's share capital as at LPD is RM5,000,000 comprising 3,350,000 ordinary shares. The movements in the share capital of Daily Bakery since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration/ Type of issue	Cumulative share capital RM
12 December 1989	4	RM4/Subscribers' shares	4
6 August 1990	49,996	RM49,996/Issue for cash	50,000
7 May 1991	50,000	RM50,000/Issue for cash	100,000
1 October 1994	220,000	RM220,000/Issue for cash	320,000
15 March 2004	180,000	RM180,000/Issue for cash	500,000
16 November 2009	1,500,000	RM1,500,000/Rights issue	2,000,000
3 March 2014	500,000	RM500,000/Rights issue	2,500,000
25 May 2015	100,000	RM100,000/Issue for cash	2,600,000
15 June 2015	750,000	RM750,000/Rights issue	⁽¹⁾ 5,000,000

Note:

⁽¹⁾ This includes share premium of RM1,650,000.

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Daily Bakery. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14. STATUTORY AND OTHER INFORMATION (Cont'd)**14.2.5 SDS B&C**

SDS B&C's share capital as at LPD is RM1,700,000 comprising 1,700,000 ordinary shares. The movements in the share capital of SDS B&C since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration/ Type of issue	Cumulative share capital RM
13 September 1995	3	RM3/Subscribers' shares	3
18 October 2004	209,997	RM209,997/Issue for cash	210,000
14 June 2008	290,000	RM290,000/Issue for cash	500,000
10 March 2016	1,200,000	RM1,200,000/Bonus issue	1,700,000

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SDS B&C. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.2.6 SDS Top Baker

SDS Top Baker's share capital as at LPD is RM4,000,000 comprising 4,000,000 ordinary shares. The movements in the share capital of SDS Top Baker since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration/ Type of issue	Cumulative share capital RM
5 November 2007	2	RM2/Subscribers' shares	2
30 April 2008	99,998	RM99,998/Issue for cash	100,000
19 December 2008	534,000	RM534,000/Issue for cash	634,000
31 March 2009	46,000	RM46,000/Issue for cash	680,000
25 June 2012	320,000	RM320,000/Issue for cash	1,000,000
31 May 2017	3,000,000	RM3,000,000/Issue for cash	4,000,000

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in SDS Top Baker. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14.2.7 City Cake

City Cake's share capital as at LPD is RM122,450 comprising 122,450 ordinary shares. The movements in the share capital of City Cake since its incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration/ Type of issue	Cumulative share capital RM
19 June 2000	2	RM2/Subscribers' shares	2
11 September 2000	49,998	RM49,998/Issue for cash	50,000
31 December 2004	50,000	RM50,000/Issue for cash	100,000
2 February 2007	22,450	RM22,450/Issue for cash	122,450

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in City Cake. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

14. STATUTORY AND OTHER INFORMATION (*Cont'd*)**14.3 CONSTITUTION**

The following provisions are extracted from our Constitution. Terms defined in our Constitution shall have the same meanings when used here unless they are otherwise defined here or the context otherwise requires.

(1) *Remuneration of Directors*

The provisions in our Constitution dealing with remuneration of Directors are as follows:

Article 19.1 - Fees and benefits for Directors

The fees of the Directors, and any benefits payable to the Directors including any compensation for loss of employment of a Director shall from time to time be determined by an Ordinary Resolution of the Company annually in general meeting and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree PROVIDED ALWAYS that:

- (a) salaries payable to executive Director(s) may not include a commission on or percentage of turnover;
- (b) fees payable to non-executive Directors shall be a fixed sum and not by a commission on or percentage of profits or turnover;
- (c) any fee paid to an alternate Director shall be such as shall be agreed between himself and the Director nominating him and shall be paid out of the remuneration of the latter; and
- (d) fees payable to Directors shall not be increased except pursuant to an Ordinary Resolution passed at a general meeting, where notice of the proposed increase has been given in the notice convening the meeting.

Article 19.2 - Reimbursement of expenses

The Directors shall be paid all their travelling and other expenses properly and necessarily expended by them in and about the business of the Company including their travelling and other expenses incurred in attending meetings of Directors.

If by arrangement with the Directors, any Director shall perform or render any special duties or services outside his ordinary duties as a Director in particular without limiting to the generality of the foregoing if any Director being willing shall be called upon to perform extra services or to make any special efforts in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a member of a committee of Directors, the Company may remunerate the Director so doing a special remuneration in addition to his Director's fees and such special remuneration may be by way of fixed sum or otherwise as may be arranged.

Article 24.2 - Remuneration of Managing Director

The remuneration of a Managing Director or Managing Directors shall be fixed by the Board and may be by way of salary or commission or participation in profits or otherwise or by any or all of these modes but such remuneration shall not include a commission on or percentage of turnover but it may be a term of their appointment that they shall receive pension, gratuity or other benefits upon their retirement.

14. STATUTORY AND OTHER INFORMATION (*Cont'd*)**Article 23.1 - Appointment or removal of an alternate Director**

A Director may appoint any person (other than a Director) approved by a majority of the other Directors to act as his alternate Director and at his discretion by way of a notice to the Company, remove such alternate Director from office. An alternate Director may only be appointed as an alternate to one Director at any point in time. Any fee paid by the Company to an alternate Director shall be deducted from that Director's remuneration.

Any appointment or removal of an alternate Director may be made by cable, telegram, facsimile, telex or in any other manner approved by the Board. Any cable or telegram shall be confirmed as soon as possible by letter but may be acted upon by the Company meanwhile.

(2) *Voting and Borrowing Powers of the Directors*

The provisions in our Constitution dealing with voting and borrowing powers of our Directors including voting powers in relation to proposals, arrangements or contracts in which they are interested in are as follows:

Article 22.5 - Chairman to have a casting vote

Subject to our Constitution, any question arising at any meeting of Directors shall be decided by a majority of votes and a determination by a majority of Directors shall for all purposes be deemed a decision of the Board and PROVIDED ALWAYS that in the case of an equality of votes, the chairman of the meeting shall have a second or casting vote. However, in the case of an equality of votes and where 2 Directors form a quorum, the chairman of a meeting at which only such a quorum is present or at which only 2 Directors are competent to vote on the question at issue, shall not have a casting vote.

Article 21.2 - The Board's borrowing powers

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof and to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company or its subsidiaries.

Article 22.7 - Disclosure of interest and restriction on discussion and voting

Every Director shall declare his interest in the Company and his interest in any contract or proposed contract with the Company as may be required by law. Subject to Section 222 of the Act, a Director shall not participate in any discussion or vote in respect of any contract or proposed contract or arrangement in which he has directly or indirectly an interest and if he shall do so his vote shall not be counted. A Director shall, notwithstanding his interest, be counted in the quorum for any meeting where a decision is to be taken upon any contract or proposed contract or arrangement in which he is in any way interested.

14. STATUTORY AND OTHER INFORMATION (*Cont'd*)

Article 22.8 - Power to vote

Subject to Article 22.7 hereof, a Director may vote in respect of:

- (a) any arrangement for giving the Director himself or any other Director any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the Company or any of its subsidiaries; or
- (b) any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company for which the Director himself or any other Director has assumed responsibility in whole or in part under a guarantee or indemnity or by the deposit of security.

(3) *Changes in Share Capital and Variation of Class Rights*

The provisions in our Constitution dealing with changes in share capital and variation of class rights, which are no less stringent than those required by law, are as follows:

Article 4.1 - Allotment of shares

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares and subject to the provisions of our Constitution, Applicable Laws, any other requirements of the SC, and to the provisions of any resolution of the Company, the Board may issue, allot or otherwise dispose of such shares to such persons at such price, on such terms and conditions, with such preferred, deferred or other special rights and subject to such restrictions and at such times as the Board may determine but the Board in making any issue of shares shall comply with the following conditions:

- (a) in the case of shares other than ordinary shares, no special rights shall be attached until the same have been expressed in our Constitution and in the resolution creating the same;
- (b) no shares shall be issued which shall have the effect of transferring a controlling interest in the Company without the prior approval of the Members in general meeting;
- (c) every issue of shares or options to employees and/or Directors of the Company and its subsidiaries under an Employee Share Option Scheme shall be approved by the Members in general meeting; and
- (d) no Director shall participate in a scheme that involves a new issuance of shares or other convertible securities to employees unless the Members in a general meeting have approved the specific allotment to be made to such Director.

Article 4.2 - Rights of preference shareholders

Subject to Applicable Laws and any other requirements of the SC, any preference shares may with the sanction of an Ordinary Resolution be issued on the terms that they are or at the option of the Company are liable to be redeemed and the Company shall not issue preference shares ranking in priority over preference shares already issued but may issue preference shares ranking equally therewith.

14. STATUTORY AND OTHER INFORMATION (*Cont'd*)

- (a) A holder of preference shares must have a right to vote in each of the following circumstances:
 - (i) when the dividend or part of the dividend on the share is in arrears for more than 6 months;
 - (ii) on a proposal to reduce the Company's share capital;
 - (iii) on a proposal for the disposal of the whole of the Company's property, business and undertaking;
 - (iv) on a proposal that affects the rights attached to the preference shares;
 - (v) on a proposal to wind up the Company; and
 - (vi) during the winding up of the Company.
- (b) A holder of preference shares shall be entitled to the same rights as a holder of ordinary shares in relation to receiving notices, reports, audited financial statements and attending meetings.

Article 4.3 - Repayment of preference capital

Notwithstanding Article 4.2 hereof, the repayment of preference share capital other than redeemable preference shares or any alteration of preference shareholders' rights shall 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 obtained from the holders of 3/4 of the preference capital concerned within 2 months of the meeting shall be as valid and effectual as a Special Resolution carried at the meeting.

Article 13.1 - Power to increase capital

Subject to the provisions of the Securities Laws, the Company may from time to time, whether all the shares for the time being issued shall have been fully called up or not, by Ordinary Resolution increase its share capital by the creation and issue of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts and to carry such rights or to be subject to such conditions or restrictions in regard to dividend, return of capital or otherwise as the Company by the resolution authorising such increase may direct.

Article 14.1 - Power to alter capital

The Company may by Ordinary Resolution and subject to the Securities Laws:

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

14. STATUTORY AND OTHER INFORMATION (*Cont'd*)

- (b) subdivide its share capital or any part thereof into shares of smaller amount than is fixed by our Constitution by subdivision of its existing shares or any of them, subject nevertheless to the provisions of the Act and so that as between the resulting shares, 1 or more of such shares may, by the resolution by which such subdivision is effected, be given any preference or advantage as regards dividend, return of capital, voting or otherwise over the others or any other of such shares;
- (c) cancel 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 amount of the shares so cancelled; and
- (d) subject to the provisions of our Constitution and the Act, convert and/or re-classify any class of shares into any other class of shares.

Article 14.2 - Power to reduce capital

The Company may by Special Resolution, reduce its share capital in any manner permitted or authorised under and in compliance with the Applicable Laws.

Article 5.1 - Modification of class rights

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied or abrogated with the consent in writing of the holders of 3/4 of the issued shares of that class or with the sanction of a Special Resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting the provisions of our Constitution relating to meetings of Members shall mutatis mutandis apply so that the necessary quorum shall be 2 persons at least holding or representing by proxy at least 1/3 of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll. To every such Special Resolution the provisions of Section 292 of the Act shall apply with such adaptations as are necessary.

Article 5.2 - Alteration of rights by issuance of new shares

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall, unless otherwise expressly provided by the terms of issue of the shares of that class be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or in all respects *pari passu* therewith.

(4) *Transfer of Shares*

The provisions in our Constitution in respect of the arrangement for transfer of securities of our Company and restrictions on their free transferability are as follows:

14. STATUTORY AND OTHER INFORMATION (*Cont'd*)

Article 9.1 - Transfer of listed securities of Company is by way of book entry

The transfer of any listed security or class of any listed security of the Company, shall be by way of book entry by Bursa Depository in accordance with the Rules of Bursa Depository and, notwithstanding Sections 105, 106 and 110 of the Act, but subject to Section 148(2) of the Act and any exemption that may be made from compliance with Section 148(1) of the Act, the Company shall be precluded from registering and effecting any transfer of the listed securities.

Article 9.5 - Prohibited transfer

No shares shall in any circumstances be transferred to any infant, bankrupt or person of unsound mind.

Article 34.8 - Dividends due may be retained until registration

The Board may retain the dividends payable upon shares in respect of which any person is under the provision as to the transmission of shares herein before contained entitled to become a Member or which any person is under those provisions entitled to transfer, until such person shall become a Member in respect of such shares or shall transfer the same.

Article 9.2 - Transferor's Right

Subject to all Applicable Laws, the instrument of transfer of any security that is not deposited with Bursa Depository shall be in writing and in any usual or common form or in any other form which the Board may approve. The instrument of transfer shall be executed by or on behalf of the transferor and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register of Members thereof.

Article 9.3 - Refusal to register

Bursa Depository may refuse to register any transfer of the Deposited Security that does not comply with the SICDA and the Rules of Bursa Depository.

Article 9.7 - Suspension of registration

The registration of transfer may be suspended at such times and for such periods as the Board may from time to time determine not exceeding in the whole 30 days in any year. At least 10 market days' notice of intention to close the Register shall be published in a daily newspaper circulating in Malaysia and shall also be given to the Stock Exchange. The said notice shall state the reason for which the Register is being closed. At least 3 market days before the notice shall be given to Bursa Depository to prepare the appropriate Record of Depositors.

14. STATUTORY AND OTHER INFORMATION (Cont'd)**Article 9.4 - No liability for fraudulent transfer**

Neither the Company nor its Directors nor any of its officers shall incur any liability for any transfer of shares apparently made by sufficient parties, although the same may, by reason of any fraud or other cause not known to the Company or its Directors or other officers be legally inoperative or insufficient to pass the property in the shares proposed or professed to be transferred and although transferred, the transfer may, as between the transferor and transferee be liable to be set aside and notwithstanding that the Company may have notice of such transfer. And in every such case, the transferee, his executors, administrators and assignees alone shall be entitled to be recognised as the holder of such shares and the previous holder shall so far as the Company is concerned, be deemed to have transferred his whole title hereto.

14.4 GENERAL INFORMATION

- (a) Save for the dividends paid to the shareholders of our subsidiaries in FYE 2016, 2017, 2018 and 2019, purchase consideration paid to the shareholders of our subsidiaries for the Acquisitions as disclosed in Section 6.2, Directors' remuneration as disclosed in Section 5.2.4, no other amount or benefit has been paid or given within the past 2 years immediately preceding the date of this Prospectus, nor is it intended to be so paid or given, to any of our Promoters, Directors or substantial shareholders.
- (b) Save as disclosed in Section 10.1, none of our Directors or substantial shareholders have any interest, direct or indirect, in any contract or arrangement subsisting at the date of this Prospectus and which is significant in relation to the business of our Group.
- (c) The manner in which copies of this Prospectus together with the official application forms and envelopes may be obtained and the details of the summarised procedures for application and acceptance are set out in Section 15.
- (d) There is no limitation on the right to own shares including limitation on the right of non-residents or foreign shareholders to hold or exercise their voting rights on our Shares.

14.5 REPATRIATION OF CAPITAL AND REMITTANCE OF PROFITS

Currently, there are no Singapore laws, regulations or other legislation in force that may affect the repatriation of capital and remittance of dividends, interest or other payments into or out of Singapore.

Under the Singapore Companies Act, Chapter 50, dividends may be paid out of profits available for distribution. There are no restrictions on payment of dividends to a foreign shareholder. Dividends and distributions declared and paid to a person holding shares in Singapore may be exempted from Singapore income tax if certain conditions are fulfilled (including if that person is an individual who is not tax resident in Singapore).

Capital may not be returned to shareholders unless a capital reduction exercise is carried out in accordance with the provisions of the Singapore Companies Act and the company's Constitution. There are no restrictions on payment from a capital reduction exercise to foreign shareholders.

14. STATUTORY AND OTHER INFORMATION (*Cont'd*)

A company, may, if so authorised by its Constitution and subject to the limits imposed by the Singapore Companies Act, buy back its own shares. Similarly, there are no restrictions on payments of the purchase price in respect of such purchases to foreign shareholders subject to compliance with the Singapore Companies Act on pro-rata distribution.

There is no material impact on the availability of cash and cash equivalent for the use by our subsidiaries in Malaysia as there are no restriction on payments of dividends and payment of capital from a capital reduction exercise (if applicable) to foreign shareholders.

14.6 CONSENTS

- (a) The written consents of our Adviser, Sponsor, Underwriter, Placement Agent, Solicitors, Share Registrar, Company Secretaries and Issuing House to the inclusion in this Prospectus of their names in the form and context in which such names appear have been given before the issue of this Prospectus and have not been subsequently withdrawn;
- (b) The written consents of our Auditors and Reporting Accountants to the inclusion in this Prospectus of their names, Accountants' Report and report relating to the pro forma combined financial information in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not been subsequently withdrawn; and
- (c) The written consent of our IMR to the inclusion in this Prospectus of its name and the IMR Report titled "Strategic Analysis of the Bakery Products Market with an Overview of the Restaurant and Cafeteria/Canteen Market in Malaysia", in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not been subsequently withdrawn.

14.7 DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at our Registered Office during normal business hours for a period of 6 months from the date of this Prospectus:

- (a) Our Constitution;
- (b) Audited financial statements of SDGS for the period from the date of incorporation up to 31 March 2018 and FYE 2019;
- (c) Audited financial statements of our subsidiaries for FYE 2016, 2017, 2018 and 2019, save for Daily Bakery's audited financial statements for FYE 2016 as it was not our subsidiary during that financial year;
- (d) Accountants' Report as set out in Section 12;
- (e) Reporting Accountants' report relating to our pro forma combined financial information as set out in Section 13;
- (f) Executive summary of the IMR Report as set out in Section 8, and the full report thereon;
- (g) Material contracts as set out in Section 6.4; and
- (h) Letters of consent as set out in Section 14.6.

14. STATUTORY AND OTHER INFORMATION (*Cont'd*)

14.8 RESPONSIBILITY STATEMENTS

Our Directors and Promoters have seen and approved this Prospectus, and they collectively and individually accept full responsibility for the accuracy of the information contained herein, and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts which if omitted, would make any statement in this Prospectus false or misleading.

M&A Securities acknowledge that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

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15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

THIS SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR IPO SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE “DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE” ACCOMPANYING THE ELECTRONIC PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT THE ISSUING HOUSE FOR FURTHER ENQUIRIES.

Unless otherwise defined, all words and expressions used here shall carry the same meaning as ascribed to them in our Prospectus.

Unless the context otherwise requires, words used in the singular include the plural, and vice versa.

15.1 OPENING AND CLOSING OF APPLICATION PERIOD

OPENING OF THE APPLICATION PERIOD: 10.00 A.M., 23 August 2019

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M., 23 September 2019

In the event of any changes to the date or time for closing, we will advertise the notice of changes in a widely circulated daily English and Bahasa Malaysia newspaper in Malaysia.

Late Applications will not be accepted.

15.2 METHODS OF APPLICATIONS**15.2.1 Retail Offering**

Application must accord with our Prospectus and our Constitution. The submission of an Application Form does not mean that the Application will succeed.

Types of Application and category of investors	Application Method
Applications by our eligible Directors, employees and business associates/persons who have contributed to the success of our Group	Pink Application Form only
Applications by the Malaysian Public:	
(a) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(b) Non-Individuals	White Application Form only

15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**15.2.2 Placement**

Types of Application	Application Method
Applications by: Selected investors	The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions.

15.3 ELIGIBILITY**15.3.1 General**

You must have a CDS Account and a correspondence address in Malaysia. If you do not have a CDS Account, you may open a CDS Account by contacting any of the ADAs set out in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities. The CDS Account must be in your own name. Invalid, nominee or third party CDS Accounts will not be accepted for the Applications.

Only **ONE** Application Form for each category from each applicant will be considered and **APPLICATIONS MUST BE FOR AT LEAST 100 IPO SHARES OR MULTIPLES OF 100 IPO SHARES.**

MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED UNLESS EXPRESSLY ALLOWED IN THESE TERMS AND CONDITIONS. AN APPLICANT WHO SUBMITS MULTIPLE APPLICATIONS IN HIS OWN NAME OR BY USING THE NAME OF OTHERS, WITH OR WITHOUT THEIR CONSENT, COMMITS AN OFFENCE UNDER SECTION 179 OF THE CMSA AND IF CONVICTED, MAY BE PUNISHED WITH A MINIMUM FINE OF RM1,000,000 AND A JAIL TERM OF UP TO 10 YEARS UNDER SECTION 182 OF THE CMSA.

AN APPLICANT IS NOT ALLOWED TO SUBMIT MULTIPLE APPLICATIONS IN THE SAME CATEGORY OF APPLICATION.

15.3.2 Application by the Malaysian Public

You can only apply for our IPO Shares if you fulfill all of the following:

- (a) You must be one of the following:
 - (i) a Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or
 - (ii) a corporation / institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors / trustees and if you have a share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or
 - (iii) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.
- (b) You must not be a director or employee of the Issuing House or an immediate family member of a director or employee of the Issuing House; and

15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

(c) You must submit Applications by using only one of the following methods:

- (i) White Application Form; or
- (ii) Electronic Share Application; or
- (iii) Internet Share Application.

15.3.3 Application by eligible Directors, employees and persons who have contributed to the success of our Group

The eligible Directors, employees and persons (including any entities, wherever established) who have contributed to the success of our Group will be provided with Pink Application Forms and letters from us detailing their respective allocation.

15.4 APPLICATION BY WAY OF APPLICATION FORMS

The Application Form must be completed in accordance with the notes and instructions contained in the respective category of the Application Form. Applications made on the incorrect type of Application Form or which do not conform STRICTLY to the terms of our Prospectus or the respective category of Application Form or notes and instructions or which are illegible will not be accepted.

The FULL amount payable is RM0.23 for each IPO Share.

Payment must be made out in favour of “**TIH SHARE ISSUE ACCOUNT NO. 688**” and crossed “**A/ C PAYEE ONLY**” and endorsed on the reverse side with your name and address.

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods: -

- (a) despatch by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd (11324-H)
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

- (b) **DELIVER BY HAND AND DEPOSIT** in the drop-in boxes provided at their Customer Service Centre, Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur

so as to arrive not later than 5.00 p.m. on 23 September 2019 or by such other time and date specified in any change to the date or time for closing.

We, together with the Issuing House, will not issue any acknowledgement of the receipt of your Application Forms or Application monies. Please direct all enquiries in respect of the White Application Form to the Issuing House.

15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (*Cont'd*)

15.5 APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATIONS

Only Malaysian individuals may apply for our IPO Shares offered to the Malaysian Public by way of Electronic Share Application.

Electronic Share Applications may be made through the ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, HSBC Bank Malaysia Berhad, Malayan Banking Berhad, Public Bank Berhad, RHB Bank Berhad and Standard Chartered Bank Malaysia Berhad (at selected branches only). A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

15.6 APPLICATION BY WAY OF INTERNET SHARE APPLICATIONS

Only Malaysian individuals may use the Internet Share Application to apply for our IPO Shares offered to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CIMB Bank Berhad, CGS-CIMB Securities Sdn Bhd, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

The exact procedures, terms and conditions for Internet Share Application are set out on the internet financial services website of the respective Internet Participating Financial Institutions.

15.7 AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE

The Issuing House, on the authority of our Board reserves the right to:-

- (a) reject Applications which:
 - (i) do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or
 - (ii) are illegible, incomplete or inaccurate; or
 - (iii) are accompanied by an improperly drawn up, or improper form of, remittance; or
- (b) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and
- (c) bank in all Application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 15.8 below.

If you are successful in your Application, our Board reserves the right to require you to appear in person at the registered office of the Issuing House at anytime within 14 days of the date of the notice issued to you to ascertain that your Application is genuine and valid.

15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)

Our Board shall not be responsible for any loss or non-receipt of the said notice nor will it be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

15.8 UNSUCCESSFUL / PARTIALLY SUCCESSFUL APPLICANTS

If you are unsuccessful / partially successful in your Application, your Application Monies (without interest) will be refunded to you in the following manner.

15.8.1 For applications by way of Application Forms

- (a) The Application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary / registered post to your last address maintained with Bursa Depository (for partially successful applications) within 10 Market Days from the date of the final ballot at your own risk.
- (b) If your Application is rejected because you did not provide a CDS Account number, your Application monies will be refunded via banker's draft sent by ordinary / registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.
- (c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by the Issuing House as per items (a) and (b) above (as the case may be).
- (d) The Issuing House reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within 10 Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or by issuance of banker's draft sent by registered post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (ii) above (as the case may be).

15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (*Cont'd*)

15.8.2 For applications by way of Electronic Share Application and Internet Share Application

- (a) The Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within 2 Market Days after the balloting date. The full amount of the Application monies or the balance of it will be credited without interest into your account with the Participating Financial Institution or Internet Participating Financial Institution (or arranged with the Authorised Financial Institutions) within 2 Market Days after the receipt of confirmation from the Issuing House.
- (b) You may check your account on the 5th Market Day from the balloting date.
- (c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by the Issuing House by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than 10 Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institution will be informed of the unsuccessful or partially successful Applications within 2 Market Days after the final balloting date. The Participating Financial Institution will credit the Application monies or any part thereof (without interest) within 2 Market Days after the receipt of confirmation from the Issuing House.

15.9 SUCCESSFUL APPLICANTS

If you are successful in your application:

- (a) Our IPO Shares allotted to you will be credited into your CDS Account.
- (b) A notice of allotment will be despatched to you at your last address maintained with the Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.
- (c) In accordance with Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as Prescribed Securities. As such, our IPO Shares issued / offered through our Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the SICDA and Rules of Bursa Depository.
- (d) In accordance with Section 29 of the SICDA, all dealings in our Shares will be by book entries through CDS Accounts. No physical share certificates will be issued to you and you shall not be entitled to withdraw any deposited securities held jointly with Bursa Depository or its nominee as long as our Shares are listed on Bursa Securities.

15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE (Cont'd)**15.10 ENQUIRIES**

Enquiries in respect of the applications may be directed as follows:

Mode of application	Parties to direct the enquiries
Application Form	Issuing House Enquiry Services Telephone at telephone no. 03-2783 9299
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website at <https://tiih.online>, one Market Day after the balloting date.

You may also check the status of your Application at the above website, 5 Market Days after the balloting date or by calling your respective ADA during office hours at the telephone number as stated in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities.

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APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS

Save for the general business approvals, licences and permits such as those by the local councils, all of which are valid as at LPD (unless otherwise disclosed below), as well as the licences disclosed below, there are no other major approvals, licenses and permits required by our Group to carry out our operations.

A. SDS Food

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
(a)	Manufacturing licence for manufacturing bakery products at No. 5 Jalan Selatan 8, Off Jalan Kempas Lama, Kawasan Perusahaan Ringan Pulai, 81200 Johor Bahru, Johor	MITI	26 October 2016	Nil	<ol style="list-style-type: none"> 1. The licence or a certified true copy of the licence must be displayed in an area which can be easily seen at the factory where the manufacturing activity is carried out. 2. The company is to notify Malaysian Investment Development Authority ("MIDA") in writing if there is any change of registered address. 3. The company must comply with the Environmental Quality Act 1974 and other related regulations. 4. The company must comply with the Food Act 1983 and other conditions imposed by the Ministry of Health. 5. The licence is subject to approval from State Authority and the Department of Environment. 6. Any disposal of shares in the company must be notified to MITI and MIDA. 	Complied, to be complied for Conditions 8 and 9 ⁽⁴⁾

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
					7. The company is to train Malaysian citizens to ensure transfer of technology and expertise at all rank positions.	
					8. The company must achieve capital investment per employee of not less than RM140,000.00 approaching year 2020.	
					9. The company's full time employment must consist of at least 80% Malaysian citizens approaching year 2020. Recruitment of foreign workers by way of outsourcing is subject to policy in force from time to time.	
					10. The company must carry out the project as approved and in accordance with the relevant laws and regulations in Malaysia.	
(b)	Permit to store sugar, cooking oil and flour	Ministry of Domestic Trade, Co-operatives And Consumerism ("KPDNKK")	19 January 2019	18 January 2020	1. The company must adhere to the description of the scheduled controlled goods as stated in the permit. 2. The company cannot have in its possession or in its control the scheduled goods in excess of the quantity approved by the Ministry. 3. The company must store or have in its possession the scheduled goods not exceeding the quantity approved in the permit.	Complied

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
					4. The schedule controlled goods stated in the permit are for own use and not for re-sale.	
					5. The permit holder is required to keep proper book record on its purchase, including the name and address of the supplier, date of purchase, quantity and price and keep the invoice, receipt or other purchase documents for verification purpose.	
					6. The company must label the skid tank being used for storing the diesel and petrol with permit reference number, type of scheduled controlled goods, name and address of the permit holder and telephone number of the officer-in-charge.	
					7. The permit cannot be transferred.	
					8. This permit renewal has to be submitted 30 days before its expiry. Any application for renewal received beyond the expiry of the permit will be treated as new application.	
					9. The permit holder is subject to Control of Supplies Act 1961 and its subsidiary legislations.	

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
(c)	Permit to store liquefied petroleum gas	KPDNKK	19 January 2019	18 January 2020	Same conditions as set out in (b) above.	Complied
(d)	Licence to purchase and move processed palm oil	Malaysian Palm Oil Board	1 December 2018	30 November 2019	Nil	N/A
(e)	Certificate of fitness – steam boiler ⁽¹⁾	Inspector of Factories and Machinery	9 October 2018	18 July 2019	Nil	N/A
(f)	Certificate of fitness – hoisting machine (1 unit of goods hoist)	Inspector of Factories and Machinery	12 January 2019	2 April 2020	Nil	N/A
(g)	Certificate of fitness – hoisting machine (1 unit of goods hoist) ⁽²⁾	Inspector of Factories and Machinery	22 March 2018	27 May 2019	Nil	N/A
(h)	Certificate of fitness – unfired pressured vessel (10 units of LPG tank, 1 unit of vaporizer and 1 unit of liquid separator)	Inspector of Factories and Machinery	23 December 2018	10 March 2020	Nil	N/A
(i)	Registration of food premises	Ministry of Health	28 March 2017	27 March 2020	Nil	N/A

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
(j)	Fire certificate in respect of the premises at No. 5A, Jalan Selatan 8, Off Jalan Kempas Lama, Kawasan Perusahaan Ringan Pulau, 81200 Johor Bahru, Johor ⁽³⁾	Fire and Rescue Department of Malaysia ("FRDM")	17 December 2018	16 December 2019	Nil	N/A
(k)	Certificates of Authentication Halal in respect of [461] products	Jabatan Kemajuan Islam Malaysia ("JAKIM")	1 September 2017 ⁽⁵⁾ 1 April 2018 ⁽⁶⁾ 1 August 2018 ⁽⁷⁾ 1 September 2018 ⁽⁸⁾ 1 October 2018 ⁽⁹⁾ 1 November 2018 ⁽¹⁰⁾	31 August 2019 ⁽⁵⁾ 31 March 2020 ⁽⁶⁾ 31 July 2020 ⁽⁷⁾ 31 August 2020 ⁽⁸⁾ 30 September 2019 ⁽⁹⁾ 31 October 2020 ⁽¹⁰⁾	1. The certificate and the Malaysian Halal logo shall not be traded, transferred or shall its contents be altered. 2. The use of the certificate is subject to laws and regulations that are currently in force. 3. Any changes to the name or address of the company, factory or premises, name of the products, ingredients, suppliers, or anything related thereto shall be informed in writing to the Director General of JAKIM for further action. 4. The certificate holder shall at all times be subject to inspection, monitoring and enforcement conducted either by JAKIM, Islamic Religious Council/ Department ("MAIN/JAIN") of the States or KPDNKK.	Complied , save for condition 11 ⁽⁵⁾

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
5.					The certificate holder shall be held responsible for any abuse or misappropriation of the certificate. Any loss or damage of the certificate shall be reported to the Royal Malaysian Police and shall immediately be informed in writing to the Director General of JAKIM.	
6.					The certificate may be suspended or withdrawn at any time by JAKIM, MAIN/JAIN or KPDNKK if there is doubt in terms of Islamic law or violation of any laws or regulations that are currently in force.	
7.					The certificate holder shall exhibit the Malaysian Halal logo on the product or the approved premises stated in the certificate.	
8.					The certificate shall be signed by the certificate holder and a copy of the signed certificate shall be submitted to the Director General of JAKIM.	
9.					The certificate shall be exhibited only at the address stated in the certificate.	
10.					The use of the Malaysian Halal logo on the approved product or premises shall be accompanied by the reference number and standard number as stated in the certificate or such product or premises.	
11.					Renewal application shall be made 3 months before the expiry of the certificate.	

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)**Notes:**

- (1) We have made application for renewal on 25 June 2019 and the inspecting officer has inspected on 8 July 2019. The application for renewal has been approved on 21 July 2019. We are currently not using the relevant steam boiler pending the issuance of the new certificate of fitness.
- (2) We have made application for renewal on 3 April 2019 is currently pending the inspection by the inspecting officer. We are currently not using the relevant goods hoist pending the renewal of the certificate of fitness.
- (3) SDS Food and SDS Top Baker are sharing the production facility on the same premise.
- (4) Based on the latest audited financial statements for FYE 2019, the total cost of SDS Food's PPE amounted to RM26.9 million, representing RM136,548.22 per employee. Separately, as at LPD, SDS Food employs 76 foreign workers representing 38.6% of its total 197 full time employees.

Based on the above, SDS Food does not meet the conditions that (i) its capital investment per employee must not be less than RM140,000.00; and (ii) its full time employment must consist of at least 80% Malaysian citizens.

However, SDS Food has up to year 2020 to satisfy both conditions. The company will endeavour to meet these conditions, failing which it will either (i) seek for further extension of time to meet the conditions; or (ii) outsource the recruitment of its foreign workers to companies providing foreign workers' labour. The outsourcing arrangement will have the effect of reducing the company's total number of employees to meet the capital investment per employee as well as reduce the percentage of foreign employees under its employment.
- (5) In respect of Certificates of Authentication Halal with serial numbers A80367-A80372, which are in relation to our festive products i.e. mooncakes. The application for renewal of the Certificates of Authentication will subject to inspection of the ingredients used for and production process of the products. We have submitted the application for renewal on 22 July 2019 immediately after the production of mooncakes and it is currently pending the issuance of the new Certificates of Authentication Halal.
- (6) In respect of Certificates of Authentication Halal with serial numbers A92402-A92408, A92411-A92414, A92416-A92419, A92394-A92401 and A92910.
- (7) In respect of Certificates of Authentication Halal with serial numbers A98429-A98430.
- (8) In respect of products manufactured by Mega Confectionary Sdn Bhd for SDS Food and Certificate of Authentication Halal with serial number A100558.
- (9) In respect of Certificates of Authentication Halal with serial numbers A100266-A200279 and A200281.

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

(10) In respect of Certificates of Authentication Halal with serial numbers A103510-A103511.

B. SDS Top Baker

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
(a)	Manufacturing licence for manufacturing all types of bread at No. 5A Jalan Selatan 8, Off Jalan Kempas Lama, Kawasan Perusahaan Ringan Pulau, 81200 Johor Bahru, Johor	MITI	2 March 2018	Nil	<ol style="list-style-type: none"> 1. The licence or a certified true copy of the licence must be displayed in an area which can be easily seen at the factory where the manufacturing activity is carried out. 2. The company is to notify MIDA in writing if there is any change of registered address. 3. The company must comply with the Environmental Quality Act 1974 and other related regulations. 4. The company must comply with the Food Act 1983 and other conditions imposed by the Ministry of Health. 5. The licence is subject to approval from State Authority and the Department of Environment. 	Complied, to be complied for Conditions 8 and 9 ⁽²⁾

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
					6. Any disposal of shares in the company must be notified to MITI and MIDA.	
					7. The company is to train Malaysian citizens to ensure transfer of technology and expertise at all rank positions.	
					8. The company must achieve capital investment per employee of not less than RM140,000.00 approaching year 2020.	
					9. The company's full time employment must consist of at least 80% Malaysian citizens approaching year 2020. Recruitment of foreign workers by way of outsourcing is subject to policy in force from time to time	
					10. The company must carry out the project as approved and in accordance with the relevant laws and regulations in Malaysia.	
(b)	Licence to manufacture scheduled goods (bread)	KPDNKK	1 October 2018	30 September 2021	1. The licence holder is required to manufacture and store the scheduled goods at the premises stated in the licence.	Complied

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
(c)	Permit to store sugar, cooking oil and flour	KPDNKK	10 October 2018	9 October 2019	2. The licence cannot be transferred.	Complied
					3. The company cannot have in its possession or in its control or permit any third party to store in its possession of in its control on behalf of the company the scheduled goods in excess of the quantity approved by the Ministry.	
					4. The company is to operate the factory for a minimum time period stated in the licence for each and every working day.	
					1. The company is required to store the scheduled controlled goods at the address stated in the permit.	
					2. The company cannot have in its possession or in its control the scheduled goods in excess of the quantity approved by the Ministry.	
					3. The company is not allowed to store the scheduled controlled goods at another place other than what is stated in the permit.	
					4. The permit cannot be transferred.	

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
5.					The scheduled controlled goods stated in the permit are for own use and not for sale.	
6.					The permit holder is required to keep the receipts for the purchase of the controlled goods as stated in the permit for inspection.	
7.					The skid tank for storing the controlled goods needs to be labelled.	
8.					This permit is valid for the time period issued and renewal has to be submitted one month before the expiry of the permit.	
9.					The permit holder is subject to Control of Supplies Act 1961 and its subsidiary legislations.	
10.					If this permit holder is no longer using the scheduled controlled goods stated in the permit, the permit holder has to surrender it to the officer.	
11.					The permit holder who provides false information or breaches any of the conditions stated in the permit will cause the permit to be cancelled at any time.	

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
(d)	Licence to purchase, move and store processed palm oil	Malaysian Palm Oil Board	1 December 2018	30 November 2019	Nil	N/A
(e)	Certificate of fitness for unfired pressured vessel	Inspector of Factories and Machinery	6 June 2018	27 August 2019 ⁽³⁾	Nil	N/A
(f)	Registration of food premises	Ministry of Health	17 July 2018	16 July 2021	Nil	N/A
(g)	Fire certificate in respect of the premises at No. 5A, Jalan Selatan 8, Off Jalan Kempas Lama, Kawasan Perusahaan Ringan Pulai, 81200 Johor Bahru, Johor ⁽¹⁾	FRDM	17 December 2018	16 December 2019	Nil	
(h)	Certificates of Authentication Halal in respect of 147 products	JAKIM	16 May 2018	15 May 2020	1. The certificate and the Malaysian Halal logo shall not be traded, transferred or shall its contents be altered.	Complied
(i)	Certificates of Authentication Halal in respect of 2 products manufactured by Mega Confectionery Sdn Bhd (OEM manufacturer for one of the jam sold at our F&B outlets)	JAKIM	16 December 2017	15 December 2019	2. The use of the certificate is subject to laws and regulations that are currently in force. 3. Any changes to the name or address of the company, factory or premises, name of the products, ingredients, suppliers, or anything related thereto shall	

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
					be informed in writing to the Director General of JAKIM for further action.	
4.					The certificate holder shall at all times be subject to inspection, monitoring and enforcement conducted either by JAKIM, MAIN/JAIN of the States or KPDNKK.	
5.					The certificate holder shall be held responsible for any abuse or misappropriation of the certificate. Any loss or damage of the certificate shall be reported to the Royal Malaysian Police and shall immediately be informed in writing to the Director General of JAKIM.	
6.					The certificate may be suspended or withdrawn at any time by JAKIM, MAIN/JAIN or KPDNKK if there is doubt in terms of Islamic law or violation of any laws or regulations that are currently in force.	
7.					The certificate holder shall exhibit the Malaysian Halal logo on the product or the approved premises stated in the certificate.	

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
					8. The certificate shall be signed by the certificate holder and a copy of the signed certificate shall be submitted to the Director General of JAKIM.	
					9. The certificate shall be exhibited only at the address stated in the certificate.	
					10. The use of the Malaysian Halal logo on the approved product or premises shall be accompanied by the reference number and standard number as stated in the certificate or such product or premises.	
					11. Renewal application shall be made 3 months before the expiry of the certificate.	

Notes:

⁽¹⁾ SDS Food and SDS Top Baker are sharing the production facility on the same premises.

⁽²⁾ Based on the latest audited financial statements for FYE 2019, the total cost of SDS Top Baker's PPE amounted to RM50.7 million, representing RM100,000.00 per employee. Separately, as at LPD, SDS Top Baker employs 186 foreign workers representing 36.7% of its total 507 full time employees.

Based on the above, SDS Top Baker does not meet the conditions that (i) its capital investment per employee must not be less than RM140,000.00; and (ii) its full time employment must consist of at least 80% Malaysian citizens.

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

However, SDS Top Baker has up to year 2020 to satisfy both conditions. The company will endeavour to meet these conditions, failing which it will either (i) seek for further extension of time to meet the conditions; or (ii) outsource the recruitment of its foreign workers to companies providing foreign workers' labour. The outsourcing arrangement will have the effect of reducing the company's total number of employees to meet the capital investment per employee as well as reduce the percentage of foreign employees under its employment.

- (3) We have made application for renewal on 25 June 2019 and is currently pending the inspection by the inspecting officer.

C. Daily Bakery

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
(a)	Manufacturing licence for manufacturing bakery products at No. PT 6123, Jalan Tech Valley 1, Sendayan Tech Valley, 71900 Bandar Sri Sendayan, Negeri Sembilan	MITI	6 October 2017	Nil	<ol style="list-style-type: none"> 1. The licence or a certified true copy of the licence must be displayed in an area which can be easily seen at the factory where the manufacturing activity is carried out. 2. The company is to notify MIDA in writing if there is any change of registered address. 3. The company must comply with the Environmental Quality Act 1974 and other related regulations. 4. The company must comply with the Food Act 1983 and other conditions imposed by the Ministry of Health. 	Complied

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
5.					The licence is subject to approval from State Authority and the Department of Environment.	
6.					Any disposal of shares in the company must be notified to MITI and MIDA.	
7.					The company is to train Malaysian citizens to ensure transfer of technology and expertise at all rank positions.	
8.					The company must achieve capital investment per employee of not less than RM140,000.00 approaching year 2020.	
9.					The company's full time employment must consist of at least 80% Malaysian citizens approaching year 2020. Recruitment of foreign workers by way of outsourcing is subject to policy in force from time to time.	
10.					The company must carry out the project as approved and in accordance with the relevant laws and regulations in Malaysia.	

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
(b)	Licence to manufacture scheduled goods (bread)	KPDNKK / Licence No. RM05000004	11 December 2018	10 December 2021	<ol style="list-style-type: none"> 1. The licence holder is required to manufacture and store the scheduled goods at the premises stated in the licence. 2. The licence cannot be transferred. 3. The company cannot have in its possession or in its control or permit any third party to store in its possession of in its control on behalf of the company the scheduled goods in excess of the quantity approved by the Ministry. 4. The licence holder is required to displace the licence at place which can be easily seen within the approved premises. 5. The company is to operate the factory for a minimum time period stated in the licence for each and every working day. 6. The licence holder is subject to all the provisions under the Control of Supplies Act 1961 and Control of Supplies Regulations 1974. 7. The licence holder is to display the licence at a prominent place within the business premises. 	Complied

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
(c)	Permit to store sugar and flour	KPDNKK	21 January 2019	20 January 2020	8. The licence holder must comply with the direction of the Supplies Controller of Malaysia in respect of supply and sale of the controlled goods stated in the licence.	Complied
					9. The licence holder must comply with any direction issued by the Supplies Controller of Malaysia pursuant to the Control of Supplies Act 1961.	
					1. The company must adhere to the description of the scheduled controlled goods as stated in the permit.	
					2. The company is required to store the scheduled controlled goods at the address stated in the permit.	
					3. The company must store or have in its possession the scheduled goods not exceeding the quantity approved in the permit.	
					4. The schedule controlled goods stated in the permit are for own use and not for re-sale.	

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
					<p>5. The permit holder is required to keep proper book record on its purchase, including the name and address of the supplier, date of purchase, quantity and price and keep the invoice, receipt or other purchase documents for verification purpose.</p> <p>6. The company must label the skid tank being used for storing the diesel and petrol with permit reference number, type of scheduled controlled goods, name and address of the permit holder and telephone number of the officer-in-charge.</p> <p>7. The permit cannot be transferred.</p> <p>8. The permit renewal has to be submitted 30 days before its expiry. Any application for renewal received beyond the expiry of the permit will be treated as new application.</p> <p>9. The permit holder is subject to Control of Supplies Act 1961 and its subsidiary legislations.</p>	

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
(d)	Registration of food premises	Ministry of Health	18 July 2017	17 July 2020	Nil	N/A
(e)	Fire certificate in respect of PT 6123, Jalan Tech Valley, 71900 Bandar Seri Sendayan, Negeri Sembilan ⁽¹⁾	FRDM	-	-	-	N/A
(f)	Certificate of Authentication Halal in respect of 61 products	JAKIM	1 February 2018 ⁽²⁾ 16 May 2018 ⁽³⁾	31 January 2020 ⁽²⁾ 15 May 2020 ⁽³⁾	1. The certificate and the Malaysian Halal logo shall not be traded, transferred or shall its contents be altered. 2. The use of the certificate is subject to laws and regulations that are currently in force. 3. Any changes to the name or address of the company, factory or premises, name of the products, ingredients, suppliers, or anything related thereto shall be informed in writing to the Director General of JAKIM for further action. 4. The certificate holder shall at all times be subject to inspection, monitoring and enforcement conducted either by JAKIM, MAIN/JAIN of the States or KPDNKK.	Complied

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (*Cont'd*)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
					<p>5. The certificate holder shall be held responsible for any abuse or misappropriation of the certificate. Any loss or damage of the certificate shall be reported to the Royal Malaysian Police and shall immediately be informed in writing to the Director General of JAKIM.</p> <p>6. The certificate may be suspended or withdrawn at any time by JAKIM, MAIN/JAIN or KPDNKK if there is doubt in terms of Islamic law or violation of any laws or regulations that are currently in force.</p> <p>7. The certificate holder shall exhibit the Malaysian Halal logo on the product or the approved premises stated in the certificate.</p> <p>8. The certificate shall be signed by the certificate holder and a copy of the signed certificate shall be submitted to the Director General of JAKIM.</p> <p>9. The certificate shall be exhibited only at the address stated in the certificate.</p>	

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
					10. The use of the Malaysian Halal logo on the approved product or premises shall be accompanied by the reference number and standard number as stated in the certificate or such product or premises.	
					11. Renewal application shall be made 3 months before the expiry of the certificate.	

Notes:

- (1) We have made application for fire certificate for our manufacturing plant in Seremban on 31 July 2018 and pursuant to the application, FRDM has inspected the premise on 19 September 2018. Notices have been issued by FRDM on 2 October 2018 requesting plans of the premises and other relevant particulars specified in the notice to be furnished and informing us of the requirements to be complied with. Such plans, relevant particulars and requirements have been furnished to FRDM and FDRM has subsequently inspected the manufacturing plant on 6 May 2019. Notwithstanding the impending fire certificate, we have obtained the CCC and business premises licence in respect of our manufacturing plant in Seremban, both of which are supported by FRDM via their letters dated 20 September 2016 and 13 June 2017.
- (2) In respect of Certificates of Authentication Halal with serial numbers A89345-A89346.
- (3) In respect of the products manufactured by SDS Top Baker for Daily Bakery and Certificates of Authentication Halal with serial numbers A93618-A93622.

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APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)**D. Super Arrow**

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
(a)	Registration to import processed food products and food appliances	Agri-Food, Veterinary Authority of Singapore ("AVA")	Not stated	31 January 2020	<p>1. The licensee must obtain a permit from the Director-General, Agri-Food and Veterinary Services for the import of each consignment of processed food and food appliances.</p> <p>2. The import of processed food and food appliances is subject to comply fully with the Sale of Food Act and the Food Regulations.</p> <p>3. All food products are to be obtained from the regulated sources.</p> <p>4. The Director-General, Agri-Food, Veterinary Services may restrict or prohibit the import of any food products or food appliances from any country, territory or place, any farm or processing establishment.</p>	Complied

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

No.	Nature of approval/ Licences	Issuing Authority	Date of issue	Date of expiry	Equity and/ or major conditions imposed	Compliance status
5.					All consignment of food products are required to be stored in a coldroom licensed or warehouse registered with AVA.	
6.					When any of the particulars of the company have been changed, the licensee shall inform the Agri-Food and Veterinary Authority within 14 days.	
7.					The Director-General, Agri-Food and Veterinary Services may at any time vary or revoke of the existing conditions or impose new conditions.	
8.					The registration to import processed food and food appliances may be suspended or revoked if the above conditions are not complied with or an offence is committed under the Sale of Food Act and the Food Regulations.	

APPENDIX I MAJOR APPROVALS, LICENSES AND PERMITS (Cont'd)

Save for the new F&B outlets at Plaza Pelangi, Taman Desaru Utama, Mid Valley Southkey and Tesco Setia Tropika which we have submitted the application to the relevant municipal council for the business premises and signage licences, our Group has obtained valid business premises licences and signage licences from the municipal council in respect of all its production facilities in Kempas and Seremban and the F&B outlets operated by SDS B&C and City Cake as at LPD.

As at LPD, we have 352 foreign employees, out of which 300 of them have valid working permits and 52 of them have been registered under the Illegal Immigrant Rehiring Programme ("PATI Programme") which was implemented by the Ministry of Home Affairs of Malaysia since 15 February 2016 and ended on 30 June 2018 with the purpose of legalising undocumented foreign workers in Malaysia.

For our Group's foreign employees with valid working permits, they have been individually issued with temporary employment visit passes (Pas Lawatan Kerja Sementara, "PLKS") with a condition stated therein that the holder of the pass must not remain in West Malaysia longer than the period stipulated therein. Such period usually does not exceed 1 year. Each PLKS issued is in the form of a sticker and stuck onto the respective foreign employees' passports. Our Group constantly monitors the validity period of the PLKS to ensure that our foreign employees' permit is valid.

Under the PATI Programme, SDS Food, SDS Top Baker and SDS B&C have prior to 30 June 2018, submitted application via online for their foreign employees who are qualified for PATI Programme and registration slips have since been issued for each of the foreign employees. The Immigration Department of Malaysia will upon the relevant company's application, verify the records of the relevant foreign employees to determine their compliance with the requirements under the PATI Programme. In respect of foreign employees who have passed the verification by the Immigration Department of Malaysia, the respective company will be notified to proceed with payment of compound as determined by the Immigration Department of Malaysia and a special pass will be issued in the interim. Such foreign employees are required to undergo and pass medical examination at clinics registered with FOMEMA before final issuance of PLKS by the Immigration Department of Malaysia. There is no validity period stated in the PATI Programme registration slip and the foreign employees will be subject to the validity period to be stated in the PLKS upon its issuance. As at the LPD, 17 applications are still being processed by MyEG Services Berhad, 33 applications are still being processed or pending approval by the Immigration Department and 2 applications are not approved as 1 of the foreign employee were blacklisted by the Immigration Department of Malaysia and the other one was medically unfit, which we are in the midst of arranging repatriation of the relevant foreign workers.

In the PLKS or the registration slip of PATI Programme for the Group's foreign employees, the foreign employees can only work for the relevant Group company as specified in the PLKS or registration slip of PATI Programme.

APPENDIX II PROPERTIES OWNED AND RENTED BY OUR GROUP**(I) Properties owned by our Group**

The summary of the information on the material land and buildings owned by our Group as at LPD are set out below:

(a) SDS Food

No.	Postal address	Description of property/ Existing use/ Tenure/ Category of land use	Land area/ Built-up area sq ft	Date of issuance of Certificate of Fitness for Occupation ("CF")/ CCC	Encumbrance	Audited NBV as at 31 March 2019 RM'000
(a)	PTD 13434, No. 5 and 5A, Jalan Selatan 8, Taman Perindustrian Ringan Pulau, 81200 Johor Bahru, Johor	1½-storey factory with a warehouse and office annexed to a 3-storey factory with warehouse and office/ Ground floor – production and warehouse; first floor – office; The annexed 3-storey factory with warehouse and office is rented to SDS Top Baker, and used for the following purpose: ground floor – production and warehouse; first floor – office; second floor – storage and staff canteen / Freehold/ Industry	152,385/ 151,179	15 January 1997, 4 August 1997 & 20 November 2012	Charged to Public Bank Berhad	13,358
(b)	PTD 64573, No. 64, Jalan Bukit Kempas 5/1, Taman Bukit Kempas, 81200 Johor Bahru, Johor	2-storey terrace house/ Hostel/ Freehold/ Building	1,300/ 860	(1)	Charged to Malayan Banking Berhad	149
(c)	PTD 64574, No. 62, Jalan Bukit Kempas 5/1, Taman Bukit Kempas, 81200 Johor Bahru, Johor	2-storey terrace house/ Hostel/ Freehold/ Building	1,302/ 860	(1)	Charged to Maybank Islamic Berhad	149

APPENDIX II PROPERTIES OWNED AND RENTED BY OUR GROUP (Cont'd)**Note:**

(1) CCC was obtained in 1997, the actual date of issuance is illegible in the copy of CCC obtained from the previous owner.

(b) Daily Bakery

No.	Postal address	Description of property/ Existing use/ Tenure/ Category of land use	Land area/ Built-up area sq ft	Date of issuance of CF/ CCC	Encumbrance	Audited NBV as at 31 March 2019 RM'000
(a)	Lot 18696 (PT 6123), Jalan Techvalley 1, Kawasan Perindustrian Sendayan Techvalley, Bandar Sri Sendayan, 71950, Seremban, Negeri Sembilan	1½-storey factory with a warehouse and office/ Ground floor - production and warehouse; first floor - office/ Freehold/ Industry	321,270/ 53,808	20 September 2016	Charged to Public Bank Berhad	23,624

(c) SDS B&C

No.	Postal address	Description of property/ Existing use/ Tenure/ Category of land use	Land area/ Built-up area sq ft	Date of issuance of CF/ CCC	Encumbrance	Audited NBV as at 31 March 2019 RM'000
(a)	No. 6, Jalan Niaga 2, Bandar Baru Kota Tinggi, 81900 Kota Tinggi, Johor	2-storey shophouse/ Ground floor - operational headquarters; first floor - let to Swiftlet's Delicacy Sdn Bhd/ 99 years expiring on 14 May 2085 or 66 remaining years as at LPD/ Building	1,540/ 2,118	18 September 1989	Charged to Hong Leong Islamic Bank Berhad	533

Save as disclosed in Appendix I, none of the properties owned by our Group are in breach of any land use conditions and/or are in non-compliance with current statutory requirements, land laws or building regulations/by-laws.

APPENDIX II PROPERTIES OWNED AND RENTED BY OUR GROUP (Cont'd)**(II) Properties rented by our Group**

Details of material properties rented by us as at LPD are set out below:

(a) SDS Food

No.	Address	Landlord/ Tenant	Description/ Existing Use	Date of issuance of CF/ CCC	Built-up area sq ft	Period of tenancy/ Rental per annum
(a)	No. 22, Jalan Selatan 6/5, Taman Perusahaan Ringan Pulai, 81200 Johor Bahru, Johor	KS Tan Properties Sdn Bhd/ SDS Food	1 1/2 -storey light industrial factory/ Warehouse	3 January 1998	2,886	1 June 2019 to 31 May 2022/ RM48,000

(b) SDS Top Baker

No.	Address	Landlord/ Tenant	Description/ Existing Use	Date of issuance of CF/ CCC	Built-up area sq ft	Period of tenancy/ Rental per annum
(a)	No. 55, Jalan Dagang 1/1, Taman Perindustrian Temerloh, 28000 Mentakab, Pahang	Wong Hoh Yoke Lin/ SDS Top Baker	1st floor of a 2-storey shophouse/ Store	4 December 2008	1,800	1 September 2017 to 31 August 2019/ RM12,000
(b)	No. 6, Tingkat Bawah, Jalan Puteri Indah Utama, Taman Puteri Indah, 26800 Kuala Rompin, Pahang	New Era Housing Development Sdn Bhd/ SDS Top Baker	1st floor of a 2-storey shophouse/ Store	11 July 2012	1,256	1 September 2017 to 31 August 2019/ RM9,600
(c)	No. 10, Jalan Kemakmuran 1, Taman Industri Kota, 81900 Kota Tinggi, Johor	SDS Tan Properties/ SDS Top Baker	Ground floor of a 2-storey shophouse/ Warehouse	21 January 2010	1,819	1 July 2018 to 30 June 2021/ RM18,000
(d)	PT 605, Kampung Berangan Kadok, Jalan Kuala Krai, 16010 Kota Bharu, Kelantan	Normani Binti Md Nor/ SDS Top Baker	2-storey shophouse/ Store & hostel	7 July 2014	1,292	1 September 2017 to 31 August 2019/ RM24,000

APPENDIX II PROPERTIES OWNED AND RENTED BY OUR GROUP (Cont'd)

No.	Address	Landlord/ Tenant	Description/ Existing Use	Date of issuance of CF/ CCC	Built-up area	Period of tenancy/ Rental per annum
					sq ft	
(e)	Lot 9285, Taman Sri Manir, Jalan Jeram, 21200 Kuala Terengganu	Teo Swee Kian & Chua Lee Lan/ SDS Top Baker	Ground floor of 2-storey shophouse/ Warehouse	6 February 2013	1,240	1 June 2019 to 31 May 2021/ RM10,800
(f)	B-16, Lorong Seri Damai Perdana 61, Taman Sri Damai Perdana, 25150 Kuantan, Pahang	Koperasi Kawasan Paya Besar Kuantan Berhad/ SDS Top Baker	Ground floor of a shophouse/ Store	9 July 2014	2,207	1 June 2019 to 31 May 2021/ RM26,400
(g)	No. 13A, Jalan BM/1, Taman Bidor Mewah, 35500 Bidor, Perak	Voon Yoke Peng/ SDS Top Baker	2-storey shophouse/ Store & hostel	30 June 2008	1,638	1 April 2019 to 21 March 2021/ RM20,400
(h)	No. 18, Jalan Bandar Baru 5, Pusat Bandar Baru, 86100 Ayer Hitam, Johor	Tan Seong Choo/ SDS Top Baker	1st floor of a 2-storey shophouse/ Store	25 September 2016	2,963	15 May 2017 to 14 May 2020/ RM21,600
(i)	No. 26, Jalan Kemuning, Taman Wira, 85300 Labis, Johor	Tan Kok Huat/ SDS Top Baker	1st floor of a 2-storey shophouse/ Store	27 April 1999	1,547	1 September 2017 to 31 August 2019/ RM4,800
(j)	No. 33, Jalan Selatan 6/5, Taman Perindustrian Ringan Pulau, 81300 Skudai, Johor	SDS Tan Properties/ SDS Top Baker	Intermediate 1 1/2-storey light industrial unit/ Warehouse	3 January 1998	3,120	1 October 2018 to 30 September 2021/ RM33,600
(k)	No. 33A, Jalan Selatan 6/5, Taman Perindustrian Ringan Pulau, 81300 Skudai, Johor	SDS Tan Properties/ SDS Top Baker	Intermediate 1 1/2-storey light industrial unit/ Warehouse	3 January 1998	3,120	1 November 2018 to 30 October 2021/ RM24,000
(l)	No. 41, Jalan Selatan 6/5, Taman Perindustrian Ringan Pulau, 81300 Skudai, Johor	SDS Tan Properties/ SDS Top Baker	Corner 1 1/2-storey light industrial unit/ Warehouse	3 January 1998	3,152	1 October 2017 to on 30 September 2020/ RM60,000
(m)	No. 11-01, Jalan Anggerik Emas 1, Taman Anggerik Emas, 81300 Kempas, Johor	Soh Choon Hock/ SDS Top Baker	1st floor of a 2-storey shophouse/ Hostel	10 October 2014	1,540	1 October 2016 to 30 September 2019/ RM14,400

APPENDIX II PROPERTIES OWNED AND RENTED BY OUR GROUP (Cont'd)

No.	Address	Landlord/ Tenant	Description/ Existing Use	Date of issuance of CF/ CCC	Built-up area sq ft	Period of tenancy/ Rental per annum
(n)	No. 21 & 21A, Jalan Meru Impian A/3, Pusat Perniagaan Meru Impian, 30020 Ipoh, Perak	Yau Mei Ling / SDS Top Baker	2-storey shophouse/ Warehouse	9 April 2014	1,584	15 February 2018 to 14 February 2021/ RM19,200
(o)	No. 3, Lrg Pandan Damai 2/18, Jalan Taman Tas, 25150 Kuantan	Chee Chan Fei/ SDS Top Baker	Single storey terrace house/ Hostel	9 July 2014	800	1 March 2018 to 28 February 2020/ RM7,200
(p)	No. 1, Ground & Mezzanine Floor, Jalan BA/10, Kawasan Perusahaan Bukit Angkat, Sungai Chua, 43000 Kajang, Selangor	Uvest Holdings Sdn Bhd/ SDS Top Baker	Ground & mezzanine floor of a 3½- storey corner industrial unit/ Ground floor – Warehouse; mezzanine floor – office	9 January 2008	2,519	16 August 2018 to 15 August 2020/ RM36,000
(q)	No. 5, Jalan Sungai Chandong/KU 6, Off Jalan Kapar, Kawasan Perindustrian Klang Utama, 42100 Klang, Selangor	UMV Engineering (M) Sdn Bhd/ SDS Top Baker	3 storey corner industrial unit/ Ground floor – Warehouse; first floor & second floor – Hostel	8 September 2016	11,400	10 May 2019 to 9 May 2021/ RM66,000
(r)	Unit G3-03-06, Apt Teratai, Jalan 1/5, Sek 1, Taman Sutera, 43000 Kajang, Selangor	Goh Soo Boey/ SDS Top Baker	Residential parcel within a 5-storey walk up apartment building/ Hostel	25 March 2010	775	8 January 2019 to 7 January 2021/ RM8,400
No.	Address	Landlord/ Tenant	Description/ Existing Use	Date of issuance of CF/ CCC	Built-up area sq ft	Period of tenancy/ Rental per annum
(a)	Lot No. G57, Ground Floor, AEON Mall Kulai, Indahpura, 81000 Kulai, Johor	AEON Co. (M) Bhd/ SDS B&C	Retail parcel on the ground floor of a retail podium known as "AEON Mall Kulaijaya"/ F&B retail outlet	1 November 2015	2,691	27 November 2018 to 26 November 2021/ RM345,524.40 or 13.0% of the gross monthly sales, whichever is higher

(c) SDS B&C

APPENDIX II PROPERTIES OWNED AND RENTED BY OUR GROUP (Cont'd)

No.	Address	Landlord/ Tenant	Description/ Existing Use	Date of issuance of CF/ CCC	Built-up area sq ft	Period of tenancy/ Rental per annum
(b)	No. 98/98A, 100/100A & 102/102A, Jalan Dedap 4, Taman Johor Jaya, 81100 Johor Bahru, Johor	Brightex Vision Sdn Bhd/ SDS B&C	3 units of 2-storey shophouses/ Shop No. 98/98A – sublet to third parties; Shop No. 100/100A and No. 102/102A - lower floor- F&B retail outlet; upper floor – Hostel	19 August 1992	2,666	1 July 2018 to 30 June 2021 ⁽³⁾ / RM201,600 (1st year), RM204,000 (2nd year & 3rd year)
(c)	Lot No. LG-041 & 042, Lower Ground, KSL City Johor Bahru, No. 33 Jalan Seladang, Taman Abad, 80250 Johor Bahru, Johor	KSL Properties Sdn Bhd/ SDS B&C	Retail parcels on lower ground level of the retail podium known as KSL City/ F&B retail outlet	23 November 2010	1,352	15 March 2018 to 14 March 2020/ RM275,808 or 12.0% of the gross monthly sales turnover, whichever is higher
(d)	Lot No. S102, Second Floor, AEON Mall Tebrau City, No 1, Jalan Desa Tebrau, Taman Desa Tebrau, 81100 Johor Bahru, Johor	AEON Fantasy (Malaysia) Sdn Bhd/ SDS B&C	Retail parcel on second floor of the retail podium known as "AEON Mall Tebrau City"/ F&B retail outlet	26 September 2016	2,899.8	27 October 2018 to 26 October 2020/ RM347,976 or 12.0% of the gross monthly sales, whichever is higher
(e)	No. 5, Jalan Bayan, Taman Bunga Raya, 81750 Masai, Johor	SDS Tan Properties/ SDS B&C	Ground floor of a 3-storey shophouse/ F&B retail outlet	5 March 1983	1,400	1 February 2018 to 31 January 2021/ RM49,200
(f)	Lot No. R1, Giant Hypermarket Plentong, No. 3, Jalan Masai Lama, Mukim Plentong, 81750 Masai, Johor Bahru, Johor	GCH Retail (Malaysia) Sdn Bhd/ SDS B&C	Retail parcel within Giant Hypermarket Plentong/ F&B retail outlet	22 June 1998	420	10 February 2018 to 9 February 2020/ RM98,400

APPENDIX II PROPERTIES OWNED AND RENTED BY OUR GROUP (Cont'd)

No.	Address	Landlord/ Tenant	Description/ Existing Use	Date of issuance of CF/ CCC	Built-up area sq ft	Period of tenancy/ Rental per annum
(g)	Lot No. F16, First Floor, AEON Mall Bukit Indah, No. 8, Jalan Indah 15/2, Taman Bukit Indah, 81200 Johor Bahru, Johor	AEON Co. (M) Bhd/ SDS B&C	Retail parcel on first floor of the retail podium known as "AEON Mall Bukit Indah"/ F&B retail outlet	15 December 2008	1,560	15 September 2016 to 14 September 2019/ RM159,120 or 12.0% of the gross monthly sales, whichever is higher
(h)	Lot No. K1.1 and K1.2, Level 1, Plaza Pelangi, No. 2, Jalan Kuning, Taman Pelangi, 80400 Johor Bahru, Johor	Amanahraya Trustees Berhad/ SDS B&C	Retail parcel within Level 1 of the retail podium known as "Plaza Pelangi"/ F&B retail outlet	12 June 1991	516	8 November 2018 to 7 November 2020/ RM99,072
(i)	Lot No. 1.06, 1.07 & 1.09, Level 1, Plaza Pelangi, No. 2, Jalan Kuning, Taman Pelangi, 80400 Johor Bahru, Johor	Amanahraya Trustees Berhad/ SDS B&C	Retail parcel within Level 1 of the retail podium known as "Plaza Pelangi"/ F&B retail outlet	12 June 1991	1,724	23 April 2019 to 22 April 2022/ RM165,504 (1st year), RM186,192 (2nd year), RM206,880 (3rd year)
(j)	No. 1, Jalan Kebudayaan 2, Taman Universiti, 81300 Skudai, Johor	Yee Gee Min/ SDS B&C	Ground floor of a 2-storey shop office/ F&B retail outlet	22 August 1998	2,240	1 January 2017 to 31 December 2019/ RM65,520
(k)	No. 45A, Jalan Kebudayaan 2, Taman Universiti, 81300 Skudai, Johor	Tay Kok Kiam & Ko Lee Eng/ SDS B&C	1st floor of a 2-storey shop office/ Hostel	22 August 1998	1,675	15 June 2017 to 14 June 2020/ RM10,800
(l)	Lot 5B-04(C), Ground Floor, Larkin Sentral, Jalan Garuda, 80350 Johor Bahru, Johor	Larkin Sentral Property Berhad/ SDS B&C	Retail parcel within a commercial complex known as "Larkin Sentral"/ F&B retail outlet	14 October 1995	582	1 January 2017 to 31 December 2019/ RM69,840
(m)	No. 51, 51A & 51B, Jalan Persisiran Perling, Taman Perling, 81300 Skudai, Johor	Lee Sek Kiew, Liew Sook Choo & Liew Sook King/ SDS B&C	3-storey shophouse / Ground floor – F&B retail outlet; first floor – sublet to Grappify Sdn Bhd; second floor – Kitchen	(1) -	2,100	1 June 2017 to 31 May 2020/ RM144,000

APPENDIX II PROPERTIES OWNED AND RENTED BY OUR GROUP (Cont'd)

No.	Address	Landlord/ Tenant	Description/ Existing Use	Date of issuance of CF/ CCC	Built-up area sq ft	Period of tenancy/ Rental per annum
(n)	Lot No. BD 11, S'Mart Tebrau, PTD 154409, Batu 7 ½, Jalan Kota Tinggi, 81100 Johor Bahru, Johor	Prestico Sdn Bhd/ SDS B&C	Retail parcel within the Supplier's MART/ F&B retail outlet	12 June 2000	234	22 January 2019 to 21 January 2020/ RM55,200
(o)	Lot No. BD 12, S'Mart Tebrau, PTD 154409, Batu 7 ½, Jalan Kota Tinggi, 81100 Johor Bahru, Johor	Prestico Sdn Bhd/ SDS B&C	Retail parcel within the Supplier's MART/ F&B retail outlet	12 June 2000	234	22 January 2019 to 21 January 2020/ RM55,200
(p)	No. 4, Jalan Niaga 2, Bandar Baru Kota Tinggi, 81900 Kota Tinggi, Johor	SDS Tan Properties/ SDS B&C	Ground floor of a 2-storey shophouse/ F&B retail outlet	18 September 1989	1,540	1 August 2019 to 31 July 2021/ RM51,600
(q)	No. 36, Jalan Durian, Taman Tiram Baru, 81800 Ulu Tiram, Johor	SDS Tan Properties/ SDS B&C	Ground floor of a 2-storey shop house/ F&B retail outlet	(2)_	2,800	1 August 2017 to 31 July 2019/ RM46,800 ⁽⁴⁾
(r)	Lot No. 1F-22, First Floor, Paradigm Mall Johor Bahru, Jalan Bertingkat Skudai, Jalan Skudai, 81200 Johor Bahru, Johor	WCT Hartanah Jaya Sdn Bhd/ SDS B&C	Retail parcel within 1st floor of the retail mall known as "Paradigm Mall"/ F&B retail outlet	10 October 2017	2,595	28 November 2017 to 27 November 2020/ RM233,550
(s)	GB 5, Ground Floor, AEON Mall, Bandar Dato Onn, No. 3, Jln Dato' Onn 3, Bandar Dato Onn, 81100 Johor Bahru, Johor	AEON Co. (M) Bhd/ SDS B&C	Retail parcel within ground floor of the retail podium known as "AEON Mall Bandar Dato' Onn"/ F&B retail outlet	23 February 2017	2,260	7 September 2017 to 6 September 2020/ RM271,200 or 12.0% of the gross monthly sales, whichever is higher
(t)	No. 2 & 3, Jalan Semarak 1, Taman Desaru Utama (Plot 15) & (Plot 16), 81900 Bandar Penawar, Johor	Normazni Bin Mohd Ali/ SDS B&C	2 units of 2-storey shop office/ Ground floor – F&B retail outlet; first floor – Kitchen/ hostel	24 August 2016	2,508	3 August 2018 to 2 August 2021/ RM132,000

APPENDIX II PROPERTIES OWNED AND RENTED BY OUR GROUP (Cont'd)

No.	Address	Landlord/ Tenant	Description/ Existing Use	Date of issuance of CF/ CCC	Built-up area sq ft	Period of tenancy/ Rental per annum
(u)	Lot S-011 & S-011A, Second Floor, The Mall Mid Valley Southkey, Persiaran Southkey 1, 80150 Johor Bahru, Johor	Southkey Megamall Sdn Bhd/ SDS B&C	Retail parcel within 2 nd floor of the retail mall known as "The Mall Mid Valley Southkey"/ F&B retail outlet	22 April 2019	2,262	23 April 2019 to 22 April 2022/ RM325,728 or 10% of the monthly gross sales (plus service charge and promotion charge), whichever is the higher
(v)	Lot LG-039, Lower Ground, The Mall Mid Valley Southkey, Persiaran Southkey 1, 80150 Johor Bahru, Johor	Southkey Megamall Sdn Bhd/ SDS B&C	Retail parcel within Lower Ground floor of the retail mall known as "The Mall Mid Valley Southkey"/ F&B retail outlet	22 April 2019	910	23 April 2019 to 22 April 2022/ RM300,300 or 10% of the monthly gross sales (plus service charge and promotion charge), whichever is the higher
(w)	Lot G4, TESCO Setia Tropika, No. 8, Jalan Setia Tropika 1/21, Taman Setia Tropika, 81200 Johor Bahru, Johor	Tesco Stores (Malaysia) Sdn Bhd/ SDS B&C	Retail parcel within Ground floor of the retail mall known as "TESCO Setia Tropika"/ F&B retail outlet	19 March 2019	1,143	1 May 2019 to 30 April 2022/ RM47,212.20 or 5% of the monthly gross sales turnover, whichever is the higher
(x)	No. 30, Jalan Indah 22/16, Taman Bukit Indah, 79100 Iskandar Puteri, Johor	Kong Min Siem/ SDS B&C	Single storey terrace house/ Hostel	(3)	1,400	1 December 2018 to 30 June 2020/ RM15,600.00
(y)	No. 7B, Jalan Mewah Ria 2/1, Taman Bukit Mewah, 81300 Johor Bahru, Johor	Loh Keong @ Loh Min Kwang/ SDS B&C	Second floor of a 3-storey shop house/ Hostel	9 January 1997	1,440	1 December 2018 to 30 November 2020/ RM6,840.00
(z)	No. 14A, Jalan Niaga 9, 81900 Kota Tinggi, Johor	Green Point Departmental Store Sdn Bhd/ SDS B&C	First floor of a double storey shop house/ Hostel	(3)	1,470	16 December 2018 to 15 December 2019/ RM8,400.00

APPENDIX II PROPERTIES OWNED AND RENTED BY OUR GROUP (Cont'd)

No.	Address	Landlord/ Tenant	Description/ Existing Use	Date of issuance of CF/ CCC	Built-up area sq ft	Period of tenancy/ Rental per annum
(aa)	No. 39, Jalan Musang Belang, Taman Abad, 80250 Johor Bahru, Johor	Goh Chun Lai/ SDS B&C	Single storey intermediate terrace house/ Hostel	(3)	1,540	15 April 2019 to 31 April 2021/ RM18,000
(bb)	No. 200, Jalan Sutera, Taman Sentosa, 80150 Johor Bahru, Johor	Chia Shee Ying/ SDS B&C	Single storey corner terrace house/ Hostel	(3)	1,400	15 April 2019 to 14 March 2021/ RM18,000
(cc)	No. 518-C, T3, Jalan Kenanga 29/15, Bandar Indahpura, 81000 Kulai, Johor	Lee Bee Heng/ SDS B&C	Third floor of a 3-storey shop house/ Hostel	(3)	1,544	1 June 2019 to 31 May 2022/ RM5,400

Notes:

(1) CCC bearing certificate no. 1231/86 was obtained in 1986 the actual date of issuance is illegible in the copy of CCC extracted from the Johor Bahru City Council.

(2) CCC bearing certificate no. 224/96 was obtained in 1996, the actual date of issuance is illegible in the copy of CCC provided by the landlord.

(3) The owners of these properties were unable to locate the CF/CCC of this property. These are properties rented as our employees' hostel, which are not material to our business operations. We intend to continue with the rental of such properties until the expiry of the respective tenancies. Meanwhile, we will source for suitable alternative employees' hostel within the vicinity and we will ensure that the prospective landlords are able to furnish us with the CF/CCC of the properties to be rented.

(4) We have signed a tenancy agreement with the landlord on 23 July 2019 to extend the tenancy for further 2 years, commencing from 1 August 2019 and expiring on 31 July 2021, at the same monthly rent of RM3,900.

(d) City Cake

No.	Address	Landlord/ Tenant	Description/ Existing Use	Date of issuance of CF/ CCC	Built-up area sq ft	Period of tenancy/ Rental per annum
(a)	Lot MB-08, MB-09, MB-09A & MB1-09, Basement 1, Retail Podium, Johor Bahru City Square, 106 - 108, Jalan Wong Ah Fook, 80000 Johor Bahru	Johdaya Karya Sdn Bhd/ City Cake	Commercial parcels on Basement 1 of the retail podium known as "Johor Bahru City Square"/ F&B retail outlet	20 April 2001	1,047	6 October 2017 to 5 October 2019/ RM383,202

APPENDIX II PROPERTIES OWNED AND RENTED BY OUR GROUP (Cont'd)

(e) Daily Bakery						
No.	Address	Landlord/ Tenant	Description/ Existing Use	Date of issuance of CF/ CCC	Built-up area sq ft	Period of tenancy/ Rental per annum
(a)	No. 61-1, Sendayan Metropark, Jalan Metro Sendayan 1/3, 71900 Seremban, Negeri Sembilan	Ho Kong Soon/ Daily Bakery	1st floor of a 2-storey shophouse/ Hostel	1 September 2016	2,536	15 August 2017 to 14 August 2019/ RM15,600
(b)	No. 82-1, Sendayan Metro Park, Jalan Metro Sendayan 1/4, 71950 Bandar Sri Sendayan, Negeri Sembilan	Alice Tan Khiam Chow/ Daily Bakery	1st floor of a 2-storey shophouse/ Office	1 September 2016	2,248	1 August 2017 to 31 July 2019/ RM14,400
(c)	No. 49-2, Sendayan Metro Park, Jalan Metro Sendayan 1/1, 71950 Bandar Sri Sendayan, Negeri Sembilan	Olympic Electronic Sales And Service Sdn Bhd/ Daily Bakery	2nd floor of a 3-storey shop office/ Office	1 September 2016	524	1 October 2017 to 30 September 2019/ RM14,400
(d)	PT 10240, Taman Wira Perdana, 18300 Gua Musang, Kelantan	Sheh Geok Hong/ Daily Bakery	2-storey shop office/ Storage and dispatch of bakery and confectionery products	30 June 2017	1,210	1 June 2018 to 31 May 2020/ RM10,800
(e)	No. 22, Jalan MJ 51, Taman Merdeka Jaya, 75350 Batu Berendam, Melaka	SDS Tan Properties/ Daily Bakery	2-storey shophouse/ Warehouse	27 October 1999	4,800	1 November 2018 to 31 October 2021/ RM12,000
(f)	No. 4, Lorong PK 2, Jalan Stesen, Kawasan Perusahaan Kamunting, 34600 Kamunting, Perak	Yoo Hui See/ Daily Bakery	1 ½ storey light industrial factory/ Warehouse	13 June 2013	2,002	1 October 2018 to 30 September 2021/ RM13,200.00
(g)	No. 619, Jalan Hijayu 3/27, Hijayu 3, 71950 Bandar Sri Sendayan, Negeri Sembilan	Lee Boon Nam/ Daily Bakery	Double storey terrace house/ Hostel	23 March 2016	1,603	1 November 2018 to 31 October 2020/ RM15,600.00
(h)	PT 781, Tingkat Bawah, Kompleks Niaga Wakaf Che Yeh, Jalan Kuala Krai, 15100 Kota Bharu, Kelantan	K.E.L Aluminium & Trading Sdn Bhd/ Daily Bakery	Ground floor of a 3-storey shoplot / Warehouse	4 August 2008	1,399	1 July 2019 to 30 June 2024/ RM8,400

APPENDIX II PROPERTIES OWNED AND RENTED BY OUR GROUP (*Cont'd*)

Save as disclosed above, the property rented by our Group is not in breach of any other land use conditions and/or are in non-compliance with current statutory requirements, land rules or building regulations/by-laws, which will have material adverse impact on our operations as at LPD.

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