

Circular/Notice to Shareholders

DKSH HOLDINGS (MALAYSIA) BERHAD

Subject CIRCULAR TO SHAREHOLDERS IN RELATION TO THE PROPOSED ACQUISITION BY DKSH HOLDINGS (MALAYSIA) BERHAD OF THE ENTIRE EQUITY INTEREST IN AURIC PACIFIC (M) SDN. BHD. FROM AURIC PACIFIC GROUP LIMITED FOR AN INITIAL PURCHASE PRICE OF SGD157,674,000 (EQUIVALENT TO RM480,905,700) ("PROPOSED ACQUISITION")

Please refer attachment below.

Attachments

[DKSH Circular.pdf](#)
2.1 MB

[Administrative Guide.pdf](#)
265.9 kB

Announcement Info

Company Name	DKSH HOLDINGS (MALAYSIA) BERHAD
Stock Name	DKSH
Date Announced	07 Feb 2019
Category	Document Submission
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THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the course of action to be taken, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

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DKSH HOLDINGS (MALAYSIA) BERHAD

(Company No.: 231378-A)
(Incorporated in Malaysia)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

PROPOSED ACQUISITION BY DKSH HOLDINGS (MALAYSIA) BERHAD ("DKSH") OF THE ENTIRE EQUITY INTEREST IN AURIC PACIFIC (M) SDN. BHD. FROM AURIC PACIFIC GROUP LIMITED FOR AN INITIAL PURCHASE PRICE OF SGD157,674,000 (EQUIVALENT TO RM480,905,700) ("PROPOSED ACQUISITION")

AND

INDEPENDENT ADVICE LETTER FROM FHMH CORPORATE ADVISORY SDN BHD TO THE NON-INTERESTED SHAREHOLDERS OF DKSH IN RELATION TO THE PROPOSED ACQUISITION

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Principal Adviser



AmInvestment Bank

AmInvestment Bank Berhad
(Company No. 23742-V)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

Independent Adviser

**Ferrier
Hodgson**

CORPORATE FINANCE

FHMH Corporate Advisory Sdn Bhd
(Company No. 774955-D)

The Notice of the Extraordinary General Meeting ("EGM") of DKSH which is scheduled to be held on Friday, February 22, 2019 at 10 a.m. at the Glenmarie Ballroom, Holiday Inn Kuala Lumpur Glenmarie, 1, Jalan Usahawan U1/8, Seksyen U1, 40250 Shah Alam, Selangor Darul Ehsan, together with the Form of Proxy are enclosed herein.

As a shareholder who is entitled to attend, speak and vote at the EGM, you are entitled to appoint a proxy or proxies to attend, speak and vote on your behalf. The Form of Proxy should be lodged at the office of DKSH's share registrar, Tricor Investor & Issuing House Services Sdn Bhd at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, not less than 48 hours before the time appointed for holding the EGM, or at any adjournment thereof. The lodging of the Form of Proxy shall not preclude you from attending, speaking and voting in person at the EGM should you subsequently wish to do so.

Last date and time for lodging the Form of Proxy : Wednesday, February 20, 2019 at 10 a.m.

Date and time of the EGM : Friday, February 22, 2019 at 10 a.m.

This Circular is dated February 7, 2019

DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this Circular:

Act	: Companies Act 2016 and include any amendments made to it from time to time
AmInvestment Bank	: AmInvestment Bank Berhad
APMSB	: Auric Pacific (M) Sdn. Bhd.
APMSB Group	: APMSB and its subsidiaries, collectively
APMSB Shares	: Ordinary shares in APMSB
APGL or Vendor	: Auric Pacific Group Limited
Board	: Board of Directors of DKSH
Bursa Securities	: Bursa Malaysia Securities Berhad
Circular	: This circular to the shareholders of DKSH dated February 7, 2019
Completion Date	: The date falling five (5) business days after the date on which the relevant Conditions Precedent have been satisfied or waived for the completion of the Proposed Acquisition to take place in accordance with the terms of the SPA
Conditions Precedent	: The conditions precedent of the SPA as further set out in Section 2.1.3 of this Circular
DKSH or Company	: DKSH Holdings (Malaysia) Berhad
DKSH Group	: DKSH and its subsidiaries, collectively
DKSH Holding Ltd	: DKSH Holding Limited
DKSH SG	: DKSH Holding (S) Pte Ltd
DKSH Shares	: Ordinary shares in DKSH
EBITDA	: Earnings before interest, taxes, depreciation and amortisation
EGM	: Extraordinary general meeting
EPS	: Earnings per share
EV/EBITDA	: Enterprise Value-to-EBITDA
FHCA or Independent Adviser	: FHMH Corporate Advisory Sdn. Bhd.
FMCC	: Selected food manufacturing comparable companies as set out in Section 2.3 (bb) of this Circular
FMCG	: Fast Moving Consumer Goods
FPE	: Financial period ended

DEFINITIONS (CONT'D)

FYE	:	Financial year ended
IAL	:	Independent advice letter from FHCA to the non-interested shareholders of DKSH, as set out in this Circular
IBCC	:	Selected international brand comparable companies as set out in Section 2.3 (aa) of this Circular
Initial Purchase Price	:	Initial purchase consideration of SGD157,674,000 for the sale and purchase of the APMSB Shares pursuant to the SPA
Listing Requirements	:	Main Market Listing Requirements of Bursa Securities
LPD	:	January 30, 2018, being the latest practicable date prior to the printing of this Circular
LTD	:	December 21, 2018, being the last full trading date prior to the date of the announcement of the Proposed Acquisition
NA	:	Net assets
PAT	:	Profit after taxation
PBT	:	Profit before taxation
Proposed Acquisition	:	Proposed acquisition by DKSH of the entire equity interest in APMSB from the Vendor for an initial purchase price of SGD157,674,000 (equivalent to RM480,905,700), subject to adjustments as set out in Section 2.1.2 of this Circular
Proposed Acquisition of Auric Singapore	:	Proposed acquisition by DKSH SG, a related company of DKSH for the acquisition of the entire equity interest in Auric Pacific Marketing Pte Ltd and Centurion Marketing Pte Ltd from the Vendor
Purchase Consideration	:	Final purchase price for the Proposed Acquisition being the initial purchase price of SGD157,674,000, subject to adjustments as set out in Section 2.1.2 of this Circular
RM and sen	:	Ringgit Malaysia and sen, respectively
SGD	:	Singapore Dollar
SPA	:	Share purchase agreement dated December 21, 2018 entered into between DKSH and the Vendor in respect of the Proposed Acquisition

Words incorporating the singular shall, where applicable, include the plural and vice versa. Words incorporating the masculine gender shall, where applicable, include the feminine and neuter genders and vice versa. Any reference to persons shall include a corporation, unless otherwise specified.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any reference to a time of day in this Circular shall be a reference to Malaysian time, unless otherwise specified. Any discrepancy in the figures included in this Circular between the amounts stated and the totals are due to rounding.

DEFINITIONS (CONT'D)

Certain statements in this Circular may be forward-looking in nature, which are subject to uncertainties and contingencies. Forward-looking statements may contain estimates and assumptions made by the Board after due enquiry, which are nevertheless subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to differ materially from the anticipated results, performance and achievements expressed or implied in such forward-looking statements. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Circular should not be regarded as a representation or warranty that the DKSH Group's plan and objectives will be achieved.

EXCHANGE RATES

Unless otherwise stated, the following exchange rate has been used for illustrative purposes (including the Purchase Consideration in RM value) in this Circular:

SGD1.00: RM3.0500

(Source: Bank Negara Malaysia's published middle rate as at 9.00 a.m. on December 21, 2018)

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**LETTER TO THE SHAREHOLDERS OF DKSH IN RELATION TO THE
PROPOSED ACQUISITION**



DKSH HOLDINGS (MALAYSIA) BERHAD

(Company No.: 231378-A)
(Incorporated in Malaysia)

Registered Office

B-11-01, The Ascent, Paradigm
No.1, Jalan SS7/26A, Kelana Jaya
47301 Petaling Jaya
Selangor Darul Ehsan

February 7, 2019

Board of Directors

Stephen John Ferraby (*Non-Independent Non-Executive Chairman*)
Lee Chong Kwee (*Senior Independent Non-Executive Director*)
Datuk Haji Abdul Aziz bin Ismail (*Independent Non-Executive Director*)
Chan Thian Kiat (*Independent Non-Executive Director*)
Jason Michael Nicholas McLaren (*Non-Independent Executive Director*)
Lian Teng Hai (*Non-Independent Non-Executive Director*)

To: The Shareholders of DKSH Holdings (Malaysia) Berhad

Dear Sir/Madam,

PROPOSED ACQUISITION BY DKSH HOLDINGS (MALAYSIA) BERHAD OF THE ENTIRE EQUITY INTEREST IN AURIC PACIFIC (M) SDN. BHD. FROM AURIC PACIFIC GROUP LIMITED FOR AN INITIAL PURCHASE PRICE OF SGD157,674,000 (EQUIVALENT TO RM480,905,700)

1. INTRODUCTION

On December 21, 2018, AmlInvestment Bank had, on behalf of the Board, announced that the Company had on December 21, 2018, entered into the SPA with the Vendor for the proposed acquisition by DKSH of the entire issued share capital of APMSB for an initial purchase price of SGD157,674,000 which shall be subject to adjustment as set out in Section 2.1.2 of this Circular. At the time of the announcement, based on Bank Negara Malaysia's published middle rate of SGD1:RM3.0500 as at 9:00am on December 21, 2018, the Initial Purchase Price was equivalent to RM480,905,700.

On December 21, 2018, DKSH SG, a company related to the Company's major shareholder, had also entered into a conditional share purchase agreement with the Vendor for the acquisition by DKSH SG of the entire equity interest of Auric Pacific Marketing Pte Ltd ("APMPL") and Centurion Marketing Pte Ltd ("CMPL") ("**Proposed Acquisition of Auric Singapore**"). Under the sale and purchase agreement entered into by DKSH SG, the Vendor shall procure APG Foods Pte Ltd, a wholly owned subsidiary of the Vendor to sell the shares in APMPL and CMPL to DKSH SG

For clarity purposes, neither APMPL nor CMPL are part of APMSB and the Company is not a party to the sale and purchase agreement entered into by DKSH SG with the Vendor. Please see further elaboration on the Proposed Acquisition of Auric Singapore in Section 2.8 of this Circular.

The sale and purchase of APMSB, APMPL and CMPL is being made following a competitive bidding process, which entailed the invitation by the Vendor (through its adviser) for bidder(s) to participate in the non-binding process with access to preliminary information, the submission by the bidder(s) of non-binding offer, the short-listing of the bidder(s) by the Vendor, the conduct of due diligence exercise by the short-listed bidder(s), the submission of binding offer by the short-listed bidder(s), the selection by the Vendor of its preferred bidder, and further negotiation between the Vendor and the selected bidder on the terms and conditions of the proposed sale of APMSB, APMPL and CMPL. The Company is not aware of the identity of the other bidder(s) approached by the Vendor or involved in the bidding process.

Although the acquisition of APMSB is being made on an arms-length basis from a third party following a competitive bidding process, in view of the inter-conditionality of the completion of the Proposed Acquisition and Proposed Acquisition of Auric Singapore, a major shareholder of DKSH is deemed to be an interested party as set out in Section 8 of this Circular and the Proposed Acquisition is deemed a related party transaction under Chapter 10.08 of the Listing Requirements.

The inter-conditionality of the completion of the Proposed Acquisition and Proposed Acquisition of Auric Singapore was imposed by the Vendor, as the Vendor intends to dispose of the entire business in one transaction, rather than selling these operations separately. For further details on the Proposed Acquisition of Auric Singapore, please refer to Section 2.8 of this Circular.

The purpose of this Circular is to provide the shareholders of DKSH with the relevant information on the Proposed Acquisition, as well as to seek the approval from the shareholders of DKSH for the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM of the Company. The notice of the forthcoming EGM and the Form of Proxy are enclosed together with this Circular.

SHAREHOLDERS OF DKSH ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES, INCLUDING THE IAL, BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED AT THE FORTHCOMING EGM.

2. DETAILS OF THE PROPOSED ACQUISITION

Subject to the terms and conditions of the SPA, the Vendor shall sell and the Company shall purchase all the APMSB Shares.

2.1 Salient terms of the SPA

The salient terms of the SPA for the Proposed Acquisition are as follows:

2.1.1 Sale and purchase of the APMSB Shares

Subject to the terms and conditions of the SPA, DKSH has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the APMSB Shares, being the entire issued shares in APMSB free from all encumbrances and together with all rights attaching thereto as at the completion of the Proposed Acquisition in accordance with the terms under the SPA.

2.1.2 Purchase Consideration

The purchase consideration for the APMSB Shares shall be payable by DKSH to the Vendor in cash. On completion of the SPA ("**Completion**"), the amount payable by DKSH shall be calculated as follows:

- (a) the Initial Purchase Price; less

- (b) the estimated net debt of the APMSB Group being the total debt and debt-like items less total cash and cash equivalents by reference to the set of management accounts for the latest calendar month prior to Completion; plus
- (c) the amount by which the estimated net working capital of the APMSB Group being the total current assets less total current liabilities (both excluding any item to the extent such item has been included as net debt) by reference to the set of management accounts for the latest calendar month prior to Completion exceeds the Reference NWC⁽¹⁾; and less
- (d) other downward adjustments⁽²⁾ arising from any loss of profit contribution from major principals of an amount which shall not exceed SGD15,767,400⁽³⁾.

Notes:

- (1) *Reference NWC means SGD26,061,543. Reference NWC was calculated based on net working capital for the last twelve months average as at 30th September 2018.*
- (2) *In the event of any loss of any profit contribution to APMSB Group from certain major principals between the date of the SPA and Completion, there may be a downward adjustment to the purchase consideration of an amount to be calculated by reference to the proportion of the loss attributable to such major principals.*
- (3) *SGD15,767,400 is the maximum downward adjustment agreed by the Vendor, which is calculated based on 10% of the Initial Purchase Price.*

The purchase consideration above shall be adjusted so that the final purchase price to be paid for APMSB Shares shall be based on the actual net debt and net working capital of the APMSB Group as at Completion. These completion net debt and completion net working capital shall be determined to calculate the adjustments, whether upwards or downwards, within the timeframe stipulated under the SPA after the Completion Date and shall be settled by DKSH or the Vendor (as the case may be) in cash on the date falling five business days after they have been determined.

2.1.3 Conditions Precedent

The completion of the Proposed Acquisition is conditional upon the satisfaction or waiver (in accordance with the terms of the SPA), of each of the following conditions ("**Conditions**"):

- (a) the approval of the shareholders of Lippo China Resources Limited ("**LCR**")⁽¹⁾ ("**LCR Shareholders' Approval**") having been obtained and such approval remaining in full force and effect as at Completion;
- (b) the approval of the shareholders of Lippo Limited ("**Lippo**")⁽¹⁾ ("**Lippo Shareholders' Approval**") having been obtained and such approval remaining in full force and effect as at Completion;
- (c) the approval of the shareholders of DKSH having been obtained and such approval remaining in full force and effect as at Completion;
- (d) the issue of a manufacturing licence by the Ministry of International Trade and Industry under the Industrial Co-ordination Act 1975 to Auric Pacific Food Processing Sdn Bhd ("**APFPSB**") (a wholly-owned subsidiary of APMSB) and if such licence is issued subject to terms and condition, such terms and conditions being reasonably acceptable to DKSH acting in good faith⁽²⁾;
- (e) receipt of written waivers of change of control provisions or written confirmation as required from the parties with whom APMSB has entered into certain key distributions agreement;

- (f) that there shall not have occurred and be continuing any fact, matter, event, circumstance, condition or change which materially and adversely affects the business, results of operations, cash flows or financial condition of the APMSB Group since the date of the SPA;
- (g) that there is no decree, determination, injunction, judgement or other order (which is final and non-appealable) issued by any court or governmental authority prohibiting consummation of the transaction which remains in force and effect as at Completion; and
- (h) that there shall not have occurred and be continuing any breach of certain warranties in any material respect.

Notes:

- (1) *APGL is an approximately 50.3% indirect subsidiary of LCR, a company incorporated in Hong Kong whose shares are listed on The Stock Exchange of Hong Kong Limited.*

LCR is an approximately 74.99 % indirect subsidiary of Lippo, also a company incorporated in Hong Kong. Lippo's shares are also listed on The Stock Exchange of Hong Kong Limited.

- (2) *Under the SPA, DKSH acknowledged that such terms and conditions shall be deemed acceptable to DKSH as the purchaser if they do not, taken as a whole, result in a material adverse change in the manner in which the manufacturing business of APFPSB is conducted immediately prior to Completion or restrict DKSH as the purchaser from holding or controlling, directly or indirectly, all the outstanding shares in APFPSB.*

2.1.4 Long-Stop Date

The Conditions are to be satisfied on or prior to the “**Long-Stop Date**” being 5.00 p.m. on the date falling three (3) months after the date of the SPA provided that if at the expiry of such three (3)-month period, the following Conditions are outstanding, namely:

- (a) The LCR Shareholders’ Approval and Lippo Shareholders’ Approval and the Vendor is in compliance with its obligations in all material respects with regard to the satisfaction of this condition;
- (b) The approval of the shareholders of DKSH and DKSH is in compliance with its obligations in all material respects with regard to the satisfaction of the condition; and
- (c) The issue of a manufacturing licence to APFPSB and the Vendor is in compliance with its obligations in all material respects with regard to the satisfaction of the condition

then the Long-Stop Date shall be automatically extended to the date falling four (4) months after the date of the SPA (or such other time and date as DKSH and the Vendor may agree in writing).

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2.1.5 Completion

- (a) Completion shall take place at the registered office of the Vendor at 5:00 p.m. on the date falling five (5) business days after the Conditions have been satisfied or waived or at such other place and time as DKSH and the Vendor may agree in writing; and
- (b) Completion shall not take place unless the sale and purchase of and payment for all (and not some only):
 - (i) the shares in APMSB; and
 - (ii) the shares in APMPL and CMPL pursuant to the share purchase agreement entered into between DKSH SG and the Vendor in relation to the Proposed Acquisition of Auric Singapore,

are completed at the same time.

2.1.6 Limitation on the Vendor's liability under the SPA

- (a) As agreed by the parties under the SPA, the maximum aggregate liability of the Vendor in respect of:
 - (i) a claim for a breach of a fundamental warranty or certain indemnity claims shall not exceed the Purchase Consideration; and
 - (ii) a claim other than a claim for a breach of a fundamental warranty or the specific indemnity claims shall not exceed 20% of the Purchase Consideration which was agreed upon by the Vendor and DKSH after much deliberation and negotiation,

provided that the maximum aggregate liability of the Vendor in respect of such claims under paragraph (i) and (ii) above shall not exceed the Purchase Consideration.

A fundamental warranty under the SPA is a warranty relating to the Vendor's title and ownership of the Sale Shares and pertaining to matters such as capacity and authority of the Vendor in performing or undertaking the transaction. Specific indemnities covered under sub paragraph (a)(i) are those relating to the manufacturing licence of APFPSB and any liability in connection with the allotment and issuance of the Sale Shares. Any other claims arising from breach of warranty (e.g. warranties relating to plant and machinery) or general indemnities fall within sub paragraph (a)(ii) above.

- (b) Under the SPA, DKSH is required to take out an insurance policy from an insurer to cover any damages, losses, liabilities, costs, charges and expenses etc that it may suffer ("**W&I Insurance Policy**") arising in respect of insured claims under the SPA. On December 21, 2018 DKSH obtained the W&I Insurance Policy from AIG Malaysia Insurance Berhad and accordingly such policy is in place. DKSH's remedy in respect of any claim that is insured under the W&I Insurance Policy shall solely be under the W&I Insurance Policy and the Vendor has no liability towards DKSH for such claims. Under the terms of the SPA, the insured claims exclude a breach of certain warranties and indemnities given by the Vendor as set out in the SPA for which DKSH retains the right of recourse against the Vendor⁽¹⁾.

Note:

- (1) *The net premium on the W&I insurance borne by DKSH is SGD302,200 excluding stamp duty and service tax. The limit of the insurer's liability for loss notified by DKSH during the policy period is an amount not less than SGD31,534,000 subject to the terms of the policy.*

2.1.7 Termination

If the Vendor or DKSH fails to comply with any of the obligations with regard to Completion, the Vendor (in the case of non-compliance by DKSH) or DKSH (in the case of non-compliance by the Vendor) shall be entitled

- (i) to fix a new date for Completion being a date not less than 10 nor more than 20 business days after the date initially scheduled for Completion;
- (ii) or to proceed with completion so far as practicable having regard to the defaults which have occurred; or
- (iii) to terminate the SPA. Upon termination of the SPA, the Vendor shall not have a claim against DKSH and DKSH shall not have a claim against the Vendor, under the SPA, except for any claim arising from any breaches by the Vendor or DKSH of the SPA on or prior to such termination; or in respect of the surviving provisions of the SPA after such termination.

2.1.8 Non-Compete

The Vendor shall not, and shall cause its affiliates (which will be Lippo and the Vendor's affiliates which are controlled by Lippo), not to own, invest, control, acquire, operate, manage, participate, be concerned in, undertake or engage in, directly or indirectly:

- (a) the manufacturing or production of butter or melange for distribution (i) in the case of butter or mélange under the trademarks disclosed in the SPA ("**IP Rights**") in the ASEAN Countries and to the extent not covered therein, any other territory in which the IP Rights has been registered or in respect of which there is a valid application for registration ("**Foreign Territories**"); and (ii) in any other case, in the ASEAN Countries; and
- (b) subject to certain permitted exceptions, the distribution of certain FMCG products (i) under the IP Rights in the ASEAN Countries and to the extent not covered therein the Foreign Territories; and (ii) in any other case, in Singapore and Malaysia,

for a period of three (3) years from the Completion Date.

2.1.9 Governing Law

The SPA shall be governed by, and construed in accordance with, the Laws of Singapore.

2.2 Information on APGL

APGL is a Singapore incorporated investment holding company, whilst its subsidiaries are involved in a diverse range of businesses, which includes the distribution of FMCG, food manufacturing and retailing, restaurants as well as food court management.

As at the LPD, the issued share capital of APGL is SGD60,251,954 comprising 123,116,883 APGL shares.

The directors of APGL as at the LPD are Dr. Stephen Riady, Dr. Andy Adhiwana and Monish Manohar Mansukhani.

The shareholders of APGL and their respective shareholdings in APGL as at the LPD are as follows:

Shareholder	No. of APGL shares	%
Goldstream Capital Ltd	42,498,332	34.52
Pantogon Holdings Pte Ltd	36,165,052	29.37
Nine Heritage Pte Ltd	20,004,000	16.25
Silver Creek Capital Pte Ltd	18,691,216	15.18
Jeremiah Holdings Limited	4,999,283	4.06
Max Turbo Limited	759,000	0.62

APGL is an approximately 50.3% indirect subsidiary of LCR, a company incorporated in Hong Kong whose shares are listed on The Stock Exchange of Hong Kong Limited.

LCR is an approximately 74.99% indirect subsidiary of Lippo, also a company incorporated in Hong Kong. Lippo's shares are also listed on The Stock Exchange of Hong Kong Limited.

As at 31 December 2018, Lippo Capital Limited, a company incorporated in Cayman Islands was directly and indirectly interested in approximately 74.99% of the issued shares of Lippo. Lippo Capital Limited was a 60% owned subsidiary of Lippo Capital Holdings Company Limited, a company incorporated in the British Virgin Islands, which in turn was a wholly owned subsidiary of Lippo Capital Group Limited, a company incorporated in Hong Kong. Dr Stephen Riady was the beneficial owner, representing 100% of the issued share capital of Lippo Capital Group Limited.

2.3 Basis and justification of determining the Purchase Consideration

The Purchase Consideration was arrived at on a willing-buyer willing-seller basis after taking into consideration, among others, the following:

- (a) The range of indicative values for the entire equity interest in APMSB of between SGD146 million (equivalent to RM445 million) and SGD185 million (equivalent to RM564 million) as at the LTD. This range of indicative values were arrived at using the discounted cash flow ("DCF") method and was prepared by the management of DKSH, after taking into consideration various factors, amongst others, the APMSB Group's future earnings generating capabilities, projected future cash flow, sustainability as well as various business considerations affecting the business and operations of the APMSB Group. The DCF method of valuation is an investment appraisal technique which takes into consideration both the time value of money and the projected cash flow over a fixed period of time, as the future cash flow are estimated and discounted at a discount rate that reflects the uncertainty of the future cash flow to arrive at the net present value, based on the following key assumptions:
 - (i) APMSB Group will continue to operate on a going concern basis and is expected to sustain their operations;
 - (ii) there will not be any material adverse decrease in revenue whether due to disruption in operation, cancellation of contracts or inability to secure the forecasted revenue which will have a material adverse effect on the financial results, cash flows and prospects of the APMSB Group;
 - (iii) gross profit margin is expected to be in-line with historical gross margin of the APMSB Group;

- (iv) there will not be any major capital expenditure to be incurred to expand the operations of the APMSB Group;
- (v) the five (5)-year cash flow projection of the APMSB Group ("**Projection Period**");
- (vi) the indicative terminal value range of between SGD96 million and SGD133 million derived using the terminal growth rate after the Projection Period of 1.5%;
- (vii) there will not be any significant or material changes to the agreements, licences and regulations governing the business of the APMSB Group; and
- (viii) the discount rate ranging from approximately 9% to 11% was derived using the Weighted Average Cost of Capital ("**WACC**") plus illiquidity discount rate as shown below:

Discount Rate = WACC + illiquidity discount rate

Where,

$$\text{WACC} = (\text{Ke} * \text{We}) + (\text{Kd} * \text{Wd}) * (1 - t)$$

Discount Rate	
Low Case	High Case
$= (7.8\% * 77.0\%) + (4.8\% * 23.0\%) (1 - 24\%) + 4.0\%$	$= (7.8\% * 77.0\%) + (3.2\% * 23.0\%) (1 - 24\%) + 2.0\%$
= 10.8%	= 8.6%
= 11.0% (rounded up)	= 9.0% (rounded up)

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The WACC was derived using the following parameters:

Parameters	Description	(1)Low case	(2)High case
Cost of equity (Ke)	Cost of equity derived as below: $K_e = R_f + (R_m - R_f) \times \beta$ $= 4.1\% + (9.4\% - 4.1\%) \times 0.7$ $= 7.8\%$	7.8%	7.8%
Risk free rate (Rf)	Being the 10-year Malaysia government securities yield as at the LTD	4.1%	4.1%
Expected market return (Rm)	The expected equity market return of Bursa Securities.	9.4%	9.4%
Equity risk premium (Rm-Rf)	The premium that investor demand for investing in an equity market portfolio relative to the risk free rate, which is computed as Rm-Rf	5.3%	5.3%
Industry re-levered beta (β)	Based on the unlevered average beta of selected comparable companies listed in the table below as at the LTD and subsequently relevered based on the average debt to equity ratio of the selected comparable companies.	0.7	0.7
Weight of equity (We)	Weight of equity derived as below: $W_e = 1 - W_d$	77.0%	77.0%
Weight of debt (Wd)	Weight of debt derived as below: $W_d = \left[\frac{A}{B} \times C \right] + \left[\frac{D}{E} \times F \right]$	23.0%	23.0%
<p>where,</p> <p>A = Total debt of IBCC of RM409.8 million.</p> <p>B = Total capital of IBC of RM1,369.1 million.</p> <p>C = Percentage revenue contribution of International Brand Segment to APMSB's total revenue of 63.4%.</p> <p>D = Total debt of FMCC of RM359.9 million.</p> <p>E = Total capital of FMCC of RM3,286.0 million.</p> <p>F = Percentage revenue contribution of Manufacturing segment of APMSB's total revenue of 36.6%.</p>			
Pre-tax cost of debt (Kd)	Based on the lowest and highest pre-tax cost of debt as set out in subsection (aa) and (bb) below.	4.8%	3.2%
Corporate tax rate (t)	Corporate tax rate based on the statutory corporate tax rate of Malaysia.	24.0%	24.0%

Notes:

- (1) The Low case represents the low range of the indicative value for the entire equity interest in APMSB of RM445 million based on discount rate of 11.0%.
- (2) The High case represents the high range of the indicative value for the entire equity interest in APMSB of RM564 million based on discount rate of 9.0%.

The APMSB Group derived its revenue predominantly from distribution of international consumer brands and manufacturing and trading of food products. As such, comparable companies that are involved in similar business activities with that of APMSB Group were selected. A brief description of the selected comparable companies are as follows:

(aa) International Brand Comparable Companies (IBCC)

Company	Principal Activities	Market capitalisation as at the LTD RM'mil	Pre-tax cost of debt %
DKSH	DKSH primarily provides market expansion services to consumer goods, healthcare, performance materials, and technology industries in Malaysia.	353.2	3.7
Harrisons Holdings (Malaysia) Berhad	Harrisons Holdings (Malaysia) Berhad primarily markets, sells, and distributes building materials, industrial and agricultural chemical products, liquor products, and consumer goods primarily in Malaysia.	239.7	2.4
Kim Teck Cheong Berhad	Kim Teck Cheong Consolidated Berhad primarily distributes third party brands of consumer packaged goods in East Malaysia. It also manufactures bakery products and dairy products under the Buttermaid brand.	68.9	3.1

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(bb) Food Manufacturing Companies (FMCC)

Company	Principal Activities	Market capitalisation as at the LTD RM'mil	Pre-tax cost of debt %
Kawan Food Berhad	Kawan Food Berhad manufactures, trades, distributes, and sells frozen food products in Malaysia and China. It primarily offers bakery products, buns, chapattis, desserts, finger foods, frozen vegetables, parathas, and spring roll pastries.	690.3	⁽¹⁾ 1.2
Fraser & Neave Holdings Berhad	Fraser & Neave Holdings Berhad offers soft drinks, sweetened condense, evaporated, pasteurized, UHT, canned, and sterilized milk; juice and gourmet products; malt drinks; and mineral water.	11,494.8	3.5
Dutch Lady Milk Industries Berhad	Dutch Lady Milk Industries Berhad manufactures and distributes a range of dairy products primarily in Malaysia. It offers specialized powders for infant and growing children, liquid milk in various packaging formats, and yoghurts.	3,878.4	⁽²⁾ –

Notes:

⁽¹⁾ *Outlier.*

⁽²⁾ *Dutch Lady Milk Industries Berhad has no debt.*

(Source: Bloomberg as at the LTD and latest annual report of IBCC and FMCC)

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- (b) APMSB Group is mainly involved in trading and distribution of FMCG products and food manufacturing and distribution. Based on the unaudited trailing 12 months financial results for the FPE September 30, 2018, in terms of business activities, APMSB Group is organised into the following reportable business operating segments:

Operating Segment	Description	EBITDA RM'mil	EBITDA %
Manufacturing and distribution of own food brand products ("Manufacturing Segment")	Manufacturing and distribution of butter and mélange products.	20.2	63.4
Marketing and distribution of International brand products ("International Brand Segment")	Distribution and trading of international consumer brands.	13.9	36.6

Based on the profile of the APMSB Group, the valuation of the APMSB Group is supported based on the aggregate value of the distinct business segments within the APMSB Group on a sum-of-parts basis and was prepared by AmlInvestment Bank. The sum-of-parts methodology provides a value for a company's equity by summing the value of its distinct business segments. The sum-of-parts valuation of APMSB ranges from approximately RM509 million to RM554 million, further details of which are set out below:

			Indicative Value	
	Method	Note	Low RM'mil	High RM'mil
Manufacturing Segment	EV/EBITDA multiple	(1)	406.8	434.3
International Brand Segment	EV/EBITDA multiple	(2)	85.9	103.7
Less: Borrowings as at September 30, 2018			14.6	14.6
Add: Cash and bank balances as at September 30, 2018			30.5	30.5
Total			508.6	553.9

Notes:

The EV/EBITDA multiple valuation methodology has been adopted to derive the indicative value range of the APMSB Group's respective segments. As the EV/EBITDA multiple valuation methodology is capital structure-neutral, it will not be affected by differences in the capital structures and levels of indebtedness of the selected comparable companies and would provide a representative valuation of the APMSB Group's respective segments.

In arriving at the EV/EBITDA multiple-based indicative value range of APMSB, the selected comparable companies are those currently listed on the Main Market of Bursa Securities to give an indication of current market expectations in relation to the valuation of the comparable companies.

- (1) Based on the EV/EBITDA multiples of the selected comparable companies as at the LTD, the indicative value range of the Manufacturing Segment is set out as follows:

		Low RM'mil	High RM'mil
EV/EBITDA multiple adopted (times) ⁽ⁱ⁾	(A)	20.14	21.50
EBITDA ⁽ⁱⁱ⁾	(B)	20.2	20.2
Enterprise value ("EV")	(AxB)	406.8	434.3

Notes:

- (i) For the purposes of computing the indicative value of the Manufacturing Segment, the following range of EV/EBITDA multiples of the selected comparable companies listed on Bursa Securities which are principally involved in own brand food manufacturing and distribution:

Company	Market capitalisation as at the LTD RM'mil	Trailing 12 months EV/EBITDA Times
Kawan Food Berhad	690.3	20.14
Fraser & Neave Holdings Berhad	11,494.8	21.34
Dutch Lady Milk Industries Berhad	3,878.4	21.50
High		21.50
Low		20.14

(Source: Bloomberg as at the LTD and the latest unaudited financial statement of the respective companies)

- (ii) Based on the EBITDA contribution of the Manufacturing Segment of APMSB for the unaudited trailing 12 months for the FPE September 30, 2018.

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- (2) Based on the EV/EBITDA multiples of the selected comparable companies as at the LTD, the indicative value range the International Brand Segment is set out as follows:

		Low RM'mil	High RM'mil
EV/EBITDA multiple adopted (times) ⁽ⁱ⁾	(A)	6.18	7.46
EBITDA ⁽ⁱⁱ⁾	(B)	13.9	13.9
EV	(AxB)	85.9	103.7

Notes:

- (i) For the purposes of computing the indicative value of the International Brand Segment, the following range of EV/EBITDA multiples of the selected comparable companies listed on Bursa Securities which are principally involved in trading and distribution of FMCG (principally non-house brands):

Company	Market capitalisation as at the LTD RM'mil	Trailing 12 months EV/EBITDA Times
DKSH	353.2	6.18
Harrisons Holdings Malaysia Berhad	239.7	7.46
Kim Teck Cheong Berhad	68.9	*24.09
High		6.18
Low		7.46

(Source: Bloomberg as at the LTD and latest unaudited financial statement of the respective companies)

Note:

* Outlier

- (ii) Based on the EBITDA contribution of the International Brand Segment of APMSB for the unaudited trailing 12 months for the FPE September 30, 2018.

In justifying the Purchase Consideration, DKSH has additionally taken into consideration the following:

- (i) the Proposed Acquisition will enable DKSH to increase its market share in the market expansion services industry in Malaysia and provide a good opportunity for DKSH to strengthen its position in the FMCG business;
- (ii) the Proposed Acquisition will create enhanced scale and synergies for DKSH, which is expected to generate positive earnings to DKSH through, amongst others, revenue synergies as DKSH is able to grow its FMCG business; and
- (iii) the Proposed Acquisition will provide entry into the fast growing food service segment which is not currently served by the DKSH Group and which has favourable long-term prospects.

2.4 Liabilities to be assumed by DKSH

There are no liabilities including contingent liabilities or guarantees to be assumed by DKSH pursuant to the Proposed Acquisition.

2.5 Additional financial commitments

DKSH does not expect to incur any financial commitment to put the businesses of APMSB on-stream as APMSB's operations are already on-going.

2.6 Original cost and date of investment

The original cost and date of investment by the Vendor in APMSB Shares are set out below:

Vendor	Date	(i) Cost of investment
		RM
APGL	3 February 1989	3
	28 June 1991	999,997
Total		1,000,000

Note:

- (i) *The disclosure represents the invested share capital of the Vendor and does not include subsequent or other additional investment made by the Vendor in APMSB, if any.*

2.7 Source of funding

The Company intends to fund the Purchase Consideration for the Proposed Acquisition entirely through bank borrowings.

2.8 Proposed Acquisition of Auric Singapore

As stated in Section 1 of this Circular, on the same date that DKSH has entered into the SPA, DKSH SG had also entered into a conditional share purchase agreement with the Vendor for the acquisition by DKSH SG of the entire equity interest of APMPL and CMPL. The initial purchase price for the Proposed Acquisition of Auric Singapore is SGD60,726,000 which shall be subject to certain adjustments. Details of this adjustments can be found in Circulars dated 25 January 2019 respectively issued by Lippo and LCR to their respective shareholders which also set out some other details and information on the transaction.

For clarity, Lippo and LCR are the indirect substantial shareholders of the Vendor and both are listed on the Stock Exchange of Hong Kong Limited.

APMPL and CMPL are principally engaged in the wholesale distribution and manufacture of food and allied fast-moving consumer products such as butter, margarine and related confectionary products in Singapore. The Vendor does not wish to dispose APMSB, APMPL and CMPL separately.

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3. RATIONALE AND JUSTIFICATION FOR THE PROPOSED ACQUISITION

APMSB is one of the established player in the distribution of chilled and frozen products and in the food services channel in Malaysia. As part of its market expansion services, DKSH provides marketing services, provision of sales force, distribution and logistics, invoicing and credit control, handling of inventory and returned goods and other value-added services which are similar to those of APMSB. DKSH is not involved in the chilled and frozen products segment or the food service channel in any significant depth, and thus, the strengths of APMSB are complementary to the market expansion services in the FMCG sector that DKSH is currently undertaking.

The Proposed Acquisition is in line with DKSH's horizontal integration strategy to make further strategic investments in DKSH's market expansion services. This represents a gateway for DKSH to further increase its product portfolio which creates a synergy effect and is expected to generate positive earnings to the Company.

As both DKSH and APMSB's distribution businesses relate to a similar sector i.e. FMCG, the Proposed Acquisition will create enhanced scale and synergies for DKSH through, amongst others, revenue synergies as DKSH is able to grow its FMCG business. In addition, DKSH will be able to acquire APMSB's business of manufacturing melange, which will create additional income stream for the DKSH Group.

Premised on the above, the Board believes that the Proposed Acquisition will bode well with DKSH in its effort to continuously develop the Company's market expansion services as well as to provide a good opportunity for DKSH to strengthen its position in the FMCG business. As a result, the Proposed Acquisition is expected to contribute positively to the DKSH Group's future earnings and financial position. The additional revenue contribution will also provide DKSH with an additional stream of earnings which is expected to enhance the DKSH Group's profitability and returns on shareholders' funds.

4. INDUSTRY OUTLOOK, PROSPECTS AND FUTURE PLANS OF THE APMSB GROUP AND THE ENLARGED DKSH GROUP

4.1 Overview and outlook of Malaysian Economy

The Malaysian economy recorded a sustained growth of 4.4% in the third quarter of 2018 (2Q 2018: 4.5%), supported by expansion in domestic demand amid a decline in net exports growth. Private sector expenditure remained the key driver of growth, expanding at a faster pace of 8.5% (2Q 2018: 7.5%), while public sector expenditure turned around to register a positive growth of 1.1% (2Q 2018: -1.4%). On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.6% (2Q 2018: 0.3%).

Domestic demand expanded at a faster pace during the quarter (6.9%; 2Q 2018: 5.6%), driven by private sector activity. Private consumption growth accelerated to 9.0% (2Q 2018: 8.0%). Household spending was boosted in July and August 2018, following the zerorisation of the Goods and Services Tax ("GST") rate, particularly on durable goods such as motor vehicles and furnishings, as well as food and beverages. Continued expansion in income and employment provided key support to household spending.

Private investment growth edged higher to 6.9% (2Q 2018: 6.1%), underpinned mainly by capital spending in the manufacturing and services sectors. During the quarter, firms further expanded their capacity through increased machinery and equipment spending to cater to positive demand.

Public consumption grew at a faster pace (5.2%; 2Q 2018: 3.1%). This was attributable to a higher spending on supplies and services, which more than offset the moderation in emoluments growth. Public investment registered a smaller decline during the quarter (-5.5%; 2Q 2018: -9.8%), due to improvements in general Government capital spending. However, capital spending by public corporations was lower as some projects were near completion.

Growth in the services sector rose further during the quarter, driven mainly by the wholesale and retail trade sub-sector on account of higher consumer spending during the tax holiday period. The finance and insurance sub-sector also benefitted from the zerorisation of GST as seen in higher consumer loans disbursements and insurance premium payments, particularly in the motor vehicle segment. Growth in the transport and storage sub-sector improved, supported by higher air passenger traffic. The information and communications sub-sector continued to expand, amid continued demand for data communication services.

Despite the heightened global trade tensions and tighter financial conditions, Malaysia's economy continued to register a sustained growth in the third quarter. For the remainder of the year, growth is expected to improve and benefit from the gradual recovery in commodity production.

On the external front, higher commodity production would provide support to improvements in commodity exports. However, domestic demand is projected to expand at a more moderate pace, attributed to slower private sector spending. Going into 2019, growth prospects for the Malaysian economy are expected to remain driven by private sector activity amid the continued rationalisation of public sector expenditure, particularly public investment by public corporations. Exports are likely to moderate but would be supported by demand from major trade partners and the gradual recovery in commodities exports.

(Source: Economic and Financial Developments in the Malaysian Economy in the Third Quarter of 2018, Quarterly Bulletin, Bank Negara Malaysia)

4.2 Overview and outlook of the FMCG Sector

Service sector grew 6.5% (year-on-year) during the first half of 2018 led by the wholesale and retail trade; finance and insurance; information and communication; as well as food & beverages and accommodation subsectors. Accounting for about 55% of GDP, the growth in the service sector is projected to grow 6.3% and 5.9% in 2018 and 2019, respectively, reflecting expansion across all subsectors as the sector has diversified over the years.

The wholesale and retail trade subsectors is expected to remain resilient at 7.0% and 6.3% in 2018 and 2019, respectively. This is in line with higher consumption activities, especially with the 3-months zero-rated GST and upward revision of minimum wage rate. In addition, growth of the subsector will be supported by higher sales via e-commerce platforms. As of September 2018, about 3,800 SMEs joined the Digital Free Trade Zone (DFTZ) platform.

The food & beverage and accommodation subsector is expected to record a strong growth of 8.1% in 2018 mainly supported by domestic tourism activities and increased patronage of restaurants. The subsector is projected to expand 6.9% in 2019 in tandem with aggressive promotional activities for Visit Malaysia 2020 and attractive tour packages offered via online travel fairs. In addition, the operationalization of several new shopping centres and supporting retail components in Klang Valley, Pulau Pinang and Johor are anticipated to provide additional impetus to the growth of the subsector.

The other service subsector is projected to expand 5.3% in 2018 and 5.1% in 2019. This is due to strong demand for private education and healthcare services. Meanwhile, the government services subsector is anticipated to record growth of 4.4% in 2018 and 4.2% in 2019.

(Source: Chapter 3, Economic Outlook 2019, Ministry of Finance Malaysia)

4.3 Future plans and prospects of the APMSB Group

APMSB is involved in similar business of providing market expansion services in the FMCG sector. As such, upon the completion of the Proposed Acquisition, the enlarged DKSH Group is expected to increase its scale and operations with increased number of client portfolios, which would enable the enlarged DKSH Group to increase its market share in the market expansion services industry in Malaysia.

The Proposed Acquisition would provide the enlarged DKSH Group with a larger platform to grow its business by undertaking the following future plans and strategies:

(i) Increase distribution network

As the client portfolio base for both APMSB and DKSH are different, the Proposed Acquisition will increase the client portfolio base, which will provide a larger distribution network for the enlarged DKSH Group, and in turn, provide a single platform with increased economies of scale, allowing the enlarged DKSH Group to attract more clients and increase their portfolio size as part of their expansion plan i.e. APMSB will be able to tap into the client portfolio base of DKSH in East Malaysia. Further, it will improve cost efficiencies of the operations of the enlarged DKSH Group.

(ii) Expanding foodservice channels segment through cross selling of products

Due to the different range of products distributed by DKSH and APMSB, the Proposed Acquisition will increase the product portfolio offered by APMSB in their foodservice segment and thus generate further contribution to the financial performance of the enlarged DKSH Group.

(iii) Expanding house brand product range

The Proposed Acquisition will enable APMSB to increase the presence of APMSB's house brand melange products by leveraging on DKSH's network, thus increasing the sales volume of APMSB's melange product. At the same time, this provides a good opportunity for DKSH to enter the food manufacturing segment.

4.4 Future plans and prospects of the enlarged DKSH Group

The enlarged DKSH Group will be able to leverage on APMSB's expertise and experience in the chilled and frozen products segment and food service channel to expand DKSH Group's presence in FMCG sector.

The Proposed Acquisition will combine the strengths of two established market expansion services company in Malaysia, thus creating a wide distribution network for its principals and further increasing DKSH's product portfolio, which will improve the DKSH Group's position in the FMCG sector.

Furthermore, the Proposed Acquisition provides an avenue for the DKSH Group to enter into the food manufacturing segment as APMSB is involved in the manufacturing and trading of butter and mélange, which will provide additional stream of income to the DKSH Group.

After completion of the Proposed Acquisition, DKSH's future plan is to integrate the DKSH Group with the APMSB Group. The integration process will include amongst others, assimilating the staff force of AMPSB with DKSH's organisational and working structure and retaining the key management personnel of the APMSB Group.

In addition, the enlarged DKSH Group would be able to provide wider scope of services to clients, which will enhance profitability and strengthen the capital base. This will enhance the competitiveness of the DKSH Group in the respective core areas and regions.

5. RISK FACTORS

The Proposed Acquisition will not materially change the risk profile of DKSH as the business of the APMSB Group is substantially similar to DKSH's current business. Hence, the DKSH Group will be exposed to similar business, operational and financial risks inherent in the FMCG sector upon completion of the Proposed Acquisition.

However, the Proposed Acquisition would subject DKSH to certain specific risks associated with the Proposed Acquisition, which include, amongst others, the following:

5.1 Acquisition risk

Although the Board believes that DKSH will derive benefits from the Proposed Acquisition, there is no guarantee that the anticipated benefits from the Proposed Acquisition will be realised.

Nevertheless, the Company has adopted prudent investment strategies and has conducted assessments including due diligence review on APMSB prior to making its investment decisions and completing the Proposed Acquisition.

5.2 Integration risk

The Proposed Acquisition is exposed to the business integration risk such as the risk of not being able to fully realise the expected business synergies. Upon completion of the Proposed Acquisition, DKSH will undertake the necessary efforts to mitigate the various risks by implementing a proper integration exercise and a management structure will be put in place to ensure successful integration.

5.3 Non-completion risk

The completion of the Proposed Acquisition is subject to certain conditions which are beyond the control of DKSH and APMSB, such as the approvals of relevant regulatory authorities and shareholders. There is no assurance that the Proposed Acquisition will be completed as contemplated by DKSH.

In addition, the completion of the Proposed Acquisition and the Proposed Acquisition of Auric Singapore are inter-conditional upon each other. If any of the conditions precedent in the Proposed Acquisition of Auric Singapore is not fulfilled, the SPA will be terminated and as a result, the Company will not be able to complete the Proposed Acquisition.

However, the Company will take reasonable steps that are within its control to ensure that the conditions precedent pursuant to the Proposed Acquisition are fulfilled by the stipulated date.

5.4 Goodwill and impairment risk

DKSH expects to recognise goodwill arising from the Proposed Acquisition, the amount of which will depend on the fair value of APMSB's identifiable assets (including intangible assets) and liabilities acquired as at the Completion Date.

Any subsequent fair value adjustments allocated to the identifiable assets acquired and liabilities assumed as well as the effects of the amortisation of intangible assets, if any, arising from the Proposed Acquisition may materially affect the DKSH Group's financial performance. Additionally, any impairment on the carrying amount of the intangible assets (such as goodwill arising from the Proposed Acquisition) as a result of impairment tests may also materially affect the DKSH Group's financial performance.

Nevertheless, DKSH will continuously monitor the performance and cashflow of APMSB to ensure that the goodwill is supported by the cash flow of the relevant cash generating units at all times.

5.5 Fluctuation in interest rates risk

DKSH intends to fund the Purchase Consideration via internally generated funds and bank borrowings. The bank borrowings to be taken to finance the Purchase Consideration may expose the DKSH Group to fluctuation in interest rates which could affect the interest charges incurred on such borrowings and hence affect the DKSH Group's future financial performance.

In order to mitigate such risks, the DKSH Group has been and will continue to review its debt portfolio and will take into consideration the DKSH Group's gearing level, interest cost as well as cash flow in achieving an optimal capital structure.

6. EFFECTS OF THE PROPOSED ACQUISITION

6.1 Share capital and substantial shareholders' shareholdings

The Proposed Acquisition will not have any effect on the share capital and substantial shareholders' shareholdings as the Proposed Acquisition will be satisfied entirely in cash and does not involve any issuance of new DKSH Shares.

6.2 NA and gearing

Based on the Company's latest audited consolidated statement of financial position as at December 31, 2017, the proforma effects of the Proposed Acquisition on DKSH's NA, NA per share and gearing are as follows:

	Audited as at December 31, 2017 RM'000	After the Proposed Acquisition RM'000
Share capital	182,172	182,172
Foreign currency translation reserve	139	139
Retained earnings	385,843	⁽¹⁾ 383,143
Total equity	568,154	565,454
No. of DKSH Shares in issue ('000)	157,658	157,658
NA per DKSH Share (RM)	3.60	3.59
Total borrowings	30,392	⁽²⁾ 511,298
Gearing (times)	0.05	0.90

Notes:

- (1) After deducting estimated expenses in relation to the Proposed Acquisition of RM2.7 million, breakdown of which is as follows:

	RM'000
Professional fees	1,216
Fees to authorities	20
Stamp duty	1,441
Miscellaneous expenses (including printing and advertising costs)	23
Total	2,700

- (2) Assuming the Purchase Consideration is fully funded by bank borrowings.

6.3 Earnings and EPS

Upon completion of the Proposed Acquisition, the Company will consolidate the earnings of the APMSB Group. For illustration purposes, the proforma effects of the Proposed Acquisition on the consolidated earnings and EPS of the DKSH based on the latest audited consolidated financial statements of the DKSH for the FYE December 31, 2017, assuming the Proposed Acquisition has been completed on January 1, 2017, being the beginning date for the FYE December 31, 2017, are as follows:

	As at December 31, 2017 RM'000	After the Proposed Acquisition RM'000
PAT attributable to the owners of DKSH	52,081	52,081
Add: PAT attributable to the owners of APMSB ⁽¹⁾	-	20,551
Less: Interest expense ⁽²⁾	-	24,045
Less: Estimated one-off expenses in relation to the Proposed Acquisition	-	2,700
Proforma PAT of the enlarged DKSH Group	52,081	45,887
No. of DKSH Shares in issue ('000)	157,658	157,658
Proforma EPS (sen)	33.03	29.11

Notes:

- (1) PAT attributable to the owners of APMSB of RM20.5 million is based on audited consolidated financial statement for FYE December 31, 2017. For information purposes, the unaudited trailing 12 months for the FPE September 30, 2018 PAT is RM25.8 million, which translate to proforma PAT of the enlarged DKSH Group of RM51.1 million and proforma EPS of 32.40 sen.
- (2) Based on the entire Purchase Consideration to be funded by way of borrowings and with an assumed interest rate of 5% per annum.

Barring unforeseen circumstances, the Proposed Acquisition is expected to contribute positively to the future earnings of the enlarged DKSH Group.

6.4 Convertible securities

As at the LPD, the Company does not have any convertible securities.

7. APPROVALS REQUIRED/OBTAINED AND INTER-CONDITIONALITY

The Proposed Acquisition is subject to the following approvals being obtained:

- (i) The shareholders of DKSH at the forthcoming EGM; and
- (ii) The shareholders of LCR and Lippo for the disposal of APMSB, APMPL and CMPL.

The completion of Proposed Acquisition and the Proposed Acquisition of Auric Singapore are inter-conditional upon each other. The Proposed Acquisition is not conditional upon any other proposals undertaken or to be undertaken by the Company.

8. INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED TO THEM

Save as disclosed below, none of the directors, major shareholder of the Company and/or persons connected to them has any interest, direct or indirect, in the Proposed Acquisition:

- (i) DKSH Holding Ltd is an indirect major shareholder of DKSH by virtue of its shareholding in DKSH Resources (Malaysia) Sdn. Bhd. ("**DKSHRM**"), which is a major shareholder of DKSH, holding 74.31% of the equity interest in DKSH. DKSH Holding Ltd is also the sole shareholder of DKSH SG. DKSH SG is a person connected to DKSH Holding Ltd as DKSH Holding Ltd is entitled to 100% of the votes attached to the shares of DKSH SG. In view of the above relationships and conditionality of the completion of the Proposed Acquisition and Proposed Acquisition of Auric Singapore, the Proposed Acquisition involves the interest of related parties, namely DKSH Holding Ltd, the ultimate major shareholder of DKSH and DKSH SG, a person connected to DKSH Holding Ltd;
- (ii) Stephen John Ferraby, Non-Independent Non-Executive Chairman of DKSH, is a member of the Executive Board of DKSH Holding Ltd; and
- (iii) Jason Michael Nicholas McLaren and Lian Teng Hai are the Non-Independent Executive Director and Non-Independent Non-Executive Director of DKSH respectively, nominated by DKSHRM.

Accordingly, Stephen John Ferraby, Jason Michael Nicholas McLaren and Lian Teng Hai (collectively, the "**Interested Directors**") have abstained and will continue to abstain from deliberation and voting at all Board meetings of DKSH in relation to the Proposed Acquisition.

DKSHRM ("**Interested Shareholder**"), Interested Directors and persons connected to them are required to abstain from voting in respect of their respective direct and/or indirect shareholdings in DKSH, if any, on the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM for the Proposed Acquisition.

The Interested Shareholder and Interested Directors have also undertaken to ensure that persons connected to them will abstain from voting in respect of their direct and/or indirect shareholdings in DKSH, if any, on the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM.

The shareholdings of the Interested Directors, Interested Shareholder and person connected to them in DKSH as at LPD are set out below:

Interested Director	Direct		Indirect	
	No. of DKSH Shares	%	No. of DKSH Shares	%
Stephen John Ferraby	10,000	0.006	-	-
Jason Michael Nicholas McLaren	-	-	-	-
Lian Teng Hai	-	-	-	-

Interested Shareholder	Direct		Indirect	
	No. of DKSH Shares	%	No. of DKSH Shares	%
DKSHRM	117,155,076	74.31	-	-
DKSH Holdings (Asia) Sdn Bhd	-	-	(i) 117,155,076	74.31
DKSH Holding Ltd	-	-	(ii) 117,155,076	74.31

Notes:

- (i) Deemed interest pursuant to Section 8 of the Act based on DKSH Holdings (Asia) Sdn Bhd 100% shareholding in DKSHRM.
- (ii) Deemed interest pursuant to Section 8 of the Act based on DKSH Holding Ltd 100% shareholding in DKSH Holdings (Asia) Sdn Bhd.

9. DIRECTORS' RECOMMENDATION

The Board (save for the Interested Directors), having considered all aspects of the Proposed Acquisition, including the rationale, the basis and justification of the Purchase Consideration, the future prospects of APMSB, risk factors and effects of the Proposed Acquisition as well as the evaluation of the Independent Adviser, is of the opinion that the Proposed Acquisition is in the best interests of DKSH and the terms and conditions of the SPA are fair, reasonable and on normal commercial terms, and is not detrimental to the interest of the non-interested shareholders of DKSH.

Accordingly, the Board (save for the Interested Directors) recommends that you vote in favour of the resolution pertaining to the Proposed Acquisition to be tabled at the Company's forthcoming EGM.

10. AUDIT COMMITTEE'S STATEMENT

The Audit Committee of DKSH, after having considered all relevant aspects of the Proposed Acquisition, including but not limited to the rationale, the basis and justification of the Purchase Consideration, the future prospects of the APMSB, risk factors, effects of the Proposed Acquisition and the independent opinion by the Independent Adviser, is of the view that the Proposed Acquisition is:

- (i) in the best interests of DKSH;
- (ii) fair, reasonable and on normal commercial terms; and
- (iii) not detrimental to the interests of the non-interested shareholders of DKSH.

11. RELATED PARTY TRANSACTIONS

In the preceding 12 months up to the LPD, DKSH Group and the Vendor do not have any transactions with each other and accordingly there are no amount transacted between them other than the Proposed Acquisition. In view of the inter-conditionality of the completion of the Proposed Acquisition and Proposed Acquisition of Auric Singapore (which was imposed by the Vendor as a term of the Proposed Acquisition), a major shareholder of DKSH (i.e. DKSH Holding Ltd) is deemed to be an interested party as set out in Section 8 of this Circular and the Proposed Acquisition is deemed a related party transaction under Chapter 10.08 of the Listing Requirements.

The total amount transacted between DKSH Group and DKSH Holding Ltd and/or person(s) connected to DKSH Holding Ltd, in the preceding 12 months up to the LPD is approximately RM37.75 million, further details of which are as follows:

Transacting parties within the DKSH Group	Transacting parties outside the DKSH Group	Nature of transaction	Value RM'000
DKSH Malaysia Sdn Bhd DKSH Distribution Malaysia Sdn Bhd The Famous Amos Chocolate Chip Cookie Corporation (M) Sdn Bhd	DKSH Corporate Shared Services Center Sdn Bhd	Hosting and support of system applications, data processing applications, provision of information technology and organizational consultancy services by the transacting parties to the DKSH Group	17,945
DKSH Malaysia Sdn Bhd	DKSH Holding Ltd and its subsidiaries	Sale of goods by the DKSH Group to transacting parties	1,575
DKSH Malaysia Sdn Bhd	DKSH Holding Ltd and its subsidiaries	Provision of distribution and logistics services by the DKSH Group to transacting parties	5,460
DKSH Malaysia Sdn Bhd	DKSH Smollan Field Marketing (Malaysia) Sdn Bhd	Provision of merchandising services and promotion services by transacting parties for products distributed by the DKSH Group	12,769

12. TENTATIVE TIMETABLE

Barring any unforeseen circumstances and subject to all required approvals being obtained, the Board expects the Proposed Acquisition to be completed by the end of the first (1st) quarter of 2019. The tentative timetable in relation to the Proposed Acquisition is set out below:

Date	Event
February 22, 2019	Convening of EGM to obtain the approval of the shareholders of DKSH
By March 20, 2019	Fulfilment of all the Conditions Precedent
By March 27, 2019	Completion of the Proposed Acquisition

13. PROPOSALS ANNOUNCED BUT PENDING COMPLETION

Save for the Proposed Acquisition, there are no other corporate exercise by DKSH which has been announced but not yet completed as at the LPD.

14. INDEPENDENT ADVISER

In view of the interest of the directors and major shareholder as set out in Section 8 of this Circular and the inter-conditionality of the Proposed Acquisition and Proposed Acquisition of Auric Singapore, the Proposed Acquisition is deemed a related party transaction pursuant to Paragraph 10.08 of the Listing Requirements. In this respect, FHCA has been appointed as the Independent Adviser to provide an independent opinion to the non-interested directors and non-interested shareholders of DKSH as to whether the Proposed Acquisition is fair and reasonable in so far as the non-interested shareholders of DKSH are concerned and whether the Proposed Acquisition is detrimental to the non-interested shareholders of DKSH, as well as whether they should vote in favour of the resolution pertaining to the Proposed Acquisition at the forthcoming EGM.

The IAL prepared by FHCA in relation to the Proposed Acquisition is further set out in this Circular. The non-interested shareholders are advised to read and consider the contents of the IAL carefully before voting on the resolution pertaining to the Proposed Acquisition at the forthcoming EGM.

15. EGM

The EGM, the notice of which is enclosed in this Circular, is scheduled to be held on Friday, February 22, 2019 at 10 a.m. at the Glenmarie Ballroom, Holiday Inn Kuala Lumpur Glenmarie, 1, Jalan Usahawan U1/8, Seksyen U1, 40250 Shah Alam, Selangor Darul Ehsan, for the purpose of considering and if thought fit, passing with or without modification, the resolution to give effect to the Proposed Acquisition.

If you are unable to attend and vote in person at the EGM, you are requested to complete, sign and return the enclosed Form of Proxy in accordance with the instructions contained therein, to be deposited at the office of DKSH's share registrar, Tricor Investor & Issuing House Services Sdn Bhd at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia, not less than 48 hours before the time stipulated for holding the EGM. The lodging of the Form of Proxy shall not preclude you from attending, speaking and voting in person at the EGM should you subsequently wish to do so.

16. FURTHER INFORMATION

Please refer to the appendices of this Circular for further information.

Yours faithfully,
for and on behalf of the Board of
DKSH HOLDINGS (MALAYSIA) BERHAD

LEE CHONG KWEE
Senior Independent Non-Executive Director

**INDEPENDENT ADVICE LETTER TO THE NON-INTERESTED SHAREHOLDERS
OF DKSH IN RELATION TO THE PROPOSED ACQUISITION**

EXECUTIVE SUMMARY

ALL DEFINITIONS USED IN THIS EXECUTIVE SUMMARY SHALL HAVE THE SAME MEANING AS THE WORDS AND EXPRESSIONS PROVIDED IN THE “DEFINITIONS” SECTION OF THE CIRCULAR, EXCEPT WHERE THE CONTEXT OTHERWISE REQUIRES OR WHERE OTHERWISE DEFINED IN THIS IAL.

THIS EXECUTIVE SUMMARY HIGHLIGHTS ONLY THE PERTINENT INFORMATION OF THE PROPOSED ACQUISITION. NON-INTERESTED SHAREHOLDERS ARE ADVISED TO READ CAREFULLY THE CONTENTS OF THIS IAL IN ITS ENTIRETY FOR FURTHER INFORMATION AND THE RECOMMENDATIONS FROM FHCA, BEING THE INDEPENDENT ADVISER IN RELATION TO THE PROPOSED ACQUISITION. THIS IAL SHOULD ALSO BE READ IN CONJUNCTION WITH THE CIRCULAR, INCLUDING THE APPENDICES THEREIN, FOR ANY OTHER RELEVANT INFORMATION BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION AT THE FORTHCOMING EGM OF THE COMPANY.

1. INTRODUCTION

On 21 December 2018, AmInvestment Bank, on behalf of the Board, announced that the Company had on even date entered into a SPA with the Vendors for the Proposed Acquisition. On even date, a company related to the Company’s major shareholder, had also entered into a conditional share purchase agreement with the Vendor for the Proposed Acquisition of Auric Singapore. Under the sale and purchase agreement entered into by DKSH SG, the Vendor shall procure APG Foods Pte Ltd, a wholly owned subsidiary of the Vendor to sell the shares in APMPL and CMPL to DKSH SG.

For clarity purposes, neither APMPL nor CMPL are part of APMSB and the Company is not a party to the sale and purchase agreement entered into by DKSH SG with the Vendor. Further details of the Proposed Acquisition of Auric Singapore can be found in Section 2.8 of the Circular.

Although the purchase is being made on an arms-length basis from a third party following a competitive bidding process, in view of the inter-conditionality of the completion of the Proposed Acquisition and Proposed Acquisition of Auric Singapore (which was imposed by the Vendor as a term of the Proposed Acquisition), a major shareholder of DKSH is deemed to be an interested party as set out in Section 8 of the Circular and the Proposed Acquisition is deemed a related party transaction under Chapter 10.08 of the Listing Requirements.

In compliance with Paragraph 10.08 of the Listing Requirements, the Board (save for the interested director) had appointed FHCA as the Independent Adviser (“IA”) to advise the non-interested directors and non-interested shareholders of the Company as to whether the Proposed Acquisition is fair and reasonable and whether the Proposed Acquisition is detrimental to the interests of the non-interested directors non-interested shareholders of the Company.

The purpose of this IAL is to provide the non-interested shareholders of the Company with an independent evaluation on the fairness and reasonableness of the Proposed Acquisition together with our recommendation thereon, subject to the scope and limitations of our role and evaluation specified in this IAL, in relation to the Proposed Acquisition.

In arriving at our opinion and recommendation on the Proposed Acquisition, we had taken into consideration the following bases and analyses:

2. RATIONALE OF THE PROPOSED ACQUISITION

APMSB Group is principally engaged in the business of manufacturing and distribution of food items and FMCG. DKSH is also involved in the distribution of food and FMCG.

APMSB Group currently operates in under two (2) business segments namely, the manufacturing and distribution of house brand products and distribution of food and FMCG products. APMSB Group has been in the industry for 52 years since 17 March 1966, with house brands such as “Buttercup” and “SCS” Butter which are among the top selling brands of margarine and butter in Malaysia. APMSB Group’s distribution channel is well established and spreads throughout Malaysia. The Proposed Acquisition will enable DKSH to expand their network by leveraging on the existing network of APMSB Group vice versa enabling the enlarged DKSH Group to benefit from synergies from fully integrating and streamlining the combined operations and distribution networks.

Based on the historical earnings of the company, APMSB had been performing well and has been continuously improving over the years in both revenues and profitability. The Proposed Acquisition would allow the Company to further grow and expand its businesses taking into consideration the potential synergies of the two companies. This will contribute positively to the earnings of the Company and correspondingly enhance the value of the Company in the long run.

We are of the opinion that the rationale for the Proposed Acquisition is fair and reasonable as it will enable the Company to recognize benefit from economic of scale, which are expected to improve the earnings and cash flow of the enlarged DKSH Group accordingly.

Further information on the rationale for the Proposed Acquisition is as set out in Section 5 of this IAL.

3. EVALUATION OF THE PROPOSED ACQUISITION

3.1 JUSTIFICATION FOR THE PURCHASE CONSIDERATION

We noted that the Initial Purchase Price of SGD157.674 million (equivalent to RM480.906 million) (subject to adjustments as set out in Section 2.1.2 of the Circular) was arrived at on a willing-buyer willing-seller basis, after considering the range of indicative values for the entire equity interest in APMSB Group of between SGD146 million (equivalent to RM445 million) and SGD185 million (equivalent to RM564 million) as at the LTD as performed by the management of DKSH based on the DCF method on the future financials of APMSB Group for the Projection Period.

The primary valuation methodology considered and selected by FHCA to evaluate the equity interest of APMSB is based on the Discounted Free Cash Flow to Firm (“FCFF”) methodology as this methodology takes into consideration both the time value of money and the projected net cash flow generated by the Company discounted at an appropriately selected discount rate to derive at the valuation of the subject matter. FCFF is the free cash flow available the company after all expenses and reinvestment. FHCA has also taken into consideration the Sum-of-part Valuation (“SOPV”) as the secondary methodology to cross check the results of the FCFF methodology. The SOPV evaluates the operating segments of APMSB separately and compared each segment to its peers within the industry and thereafter combining the value of the segments derived therein.

For the purposes of the valuation methodologies used, we have also considered the selection of comparable companies by the Board in justifying the Purchase Consideration as set out in Section 2.3 of the Circular. We note that the selected comparable companies are principally involved in own brand food manufacturing and distribution and trading and distribution of FMCG companies which are listed on Bursa Securities.

Based on the sensitivity analysis performed, the valuation of 100% equity interest in APMSB ranges from RM434.34 to RM578.62 million. The Purchase Consideration falls within the range of the valuation of 100% equity interest in APMSB.

We have also applied the SOPV methodology as a secondary method to take into consideration the current market expectation with regards to the implied value of the company.

We have selected the EV/EBITDA multiples as it illustrates the value of a company's business relative to its historical and forecast pre-tax operational cash flow performance without regard to the company's capital structure. The exclusion of non-cash items such as depreciation and amortization from the calculation of EBITDA will allow this method to be more reflective of the company's pre-tax operating cash flow. In addition, the exclusion of interest will discount the effect of differing capital structures of the selected comparable companies.

Premise on the analysis performed, the valuation of 100% equity interest in APMSB ranges from RM504.84 million to RM610.37 million. The Purchase Consideration falls below the range of the valuation of 100% equity interest in APMSB.

Premised on the above valuation methodologies applied, we are of the opinion that the Purchase Consideration is fair and reasonable.

Further information on the evaluation of the Proposed Acquisition is set out in Section 6.1 of this IAL.

3.3 SALIENT TERMS OF THE SPA

Based on our review of the salient terms of the SPA, we are of the view that the overall terms and conditions of the aforesaid agreement is fair and reasonable and not detrimental to the non-interested shareholders of DKSH.

Further information on the evaluation of the salient terms of the SPA is set out in Section 6.2 of this IAL.

4. INDUSTRY OVERVIEW AND PROSPECTS

Barring any unforeseen circumstances, the prospects of the Malaysian economy and the manufacturing industry in Malaysia are expected to remain satisfactory for the next twelve (12) months.

We are of the opinion that premised on the industry outlook and the prospects of DKSH Group following the completion of the Proposed Acquisition are favourable, barring unforeseen circumstances, is poised to improve its financial performance in the future.

Further information on the evaluation of the industry outlook and prospects are set out in Section 7 of this IAL.

5. RISK FACTORS

We take note of the risk factors as disclosed in Section 5 of the Circular.

As DKSH is principally involved in distribution of FMCG products, DKSH Group is already exposed to the risk associated with the FMCG industry which the APMSB Group is operating in. As such, the DKSH Group is not expected to be exposed to new business risk as a result of the Proposed Acquisition.

We wish to highlight that although efforts and measures will be taken by DKSH Group to mitigate the risks associated with the Proposed Acquisition, no assurance can be given that one or a combination of the risk factors as stated in Section 5 of the Circular will not occur and give rise to material and adverse impact on the business and operations of DKSH Group, its financial performance, financial position or prospects thereon.

Further information on the evaluation of risk factors is set out in Section 8 of this IAL.

6. EFFECTS OF THE PROPOSED ACQUISITION

- a. The Proposed Acquisition will not have any effect on the share capital and substantial shareholders' shareholdings as the Proposed Acquisition will be satisfied entirely in cash and does not involve the issuance of any new DKSH Shares.
- b. Barring unforeseen circumstances, the Proposed Acquisition will not have any significant impact on DKSH's NA.

The gearing of DKSH will increase from 0.05 times to 0.90 times after the Proposed Acquisition on the assumption that bank borrowings will be used to finance the entire Purchase Consideration.

- c. The Proposed Acquisition is expected to contribute positively to the earnings of the enlarged DKSH Group with the expected income from the APMSB Group in the near future.

Based on the above, we are of the opinion that the effects of the Proposed Acquisition are fair and reasonable and not to the detriment of the non-interested shareholders of the Company.

Further information on the evaluation of the effects of the Proposed Acquisitions are set out in Section 9 of this IAL.

7. CONCLUSION AND RECOMMENDATION

Premised on our overall assessment of the Proposed Acquisition, we are of the opinion that the Proposed Acquisition is **FAIR AND REASONABLE** and not detrimental to the interests of the non-interested shareholders of the Company.

Accordingly, we recommend that the non-interested shareholders of the Company TO VOTE IN FAVOUR of the ordinary resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM of the Company.

We have not taken into consideration any specific investment objective, financial situation or particular need of any individual non-interested shareholders. We recommend that any non-interested shareholders who require advice in relation to the Proposed Acquisition in the context of their individual investment objectives, financial situation or particular needs, consult their respective stockbrokers, bank managers, accountants, solicitors or other professional advisers.

NON-INTERESTED SHAREHOLDERS OF THE COMPANY ARE ADVISED TO READ BOTH THIS IAL AND THE CIRCULAR TOGETHER WITH THE ACCOMPANYING APPENDICES AND CAREFULLY CONSIDER THE RECOMMENDATION CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED AT THE FORTHCOMING EGM OF THE COMPANY.

Date: 7 February 2019

To: The Non-Interested Shareholders of DKSH Holdings (Malaysia) Berhad

Dear Sir/Madam,

DKSH HOLDINGS (MALAYSIA) BERHAD ("DKSH" OR THE "COMPANY")

PROPOSED ACQUISITION

1 INTRODUCTION

This Independent Advice Letter is prepared for inclusion in the circular to shareholders of the Company dated 7 February 2019 in relation to the Proposed Acquisition ("**Circular**") and should be read in conjunction with the same. All definitions used in this IAL shall have the same meaning as the words and expressions provided in the definitions section of the Circular, except where the context otherwise requires or where otherwise defined herein.

On 21 December 2018, AmInvestment Bank, had on behalf of the Board, announced that the Company had on even date, entered into the SPA with the Vendors for the Proposed Acquisition. On even date, a company related to the Company's major shareholder, had also entered into a conditional share purchase agreement with the Vendor for the Proposed Acquisition of Auric Singapore. Under the sale and purchase agreement entered into by DKSH SG, the Vendor shall procure APG Foods Pte Ltd, a wholly owned subsidiary of the Vendor to sell the shares in APMPL and CMPL to DKSH SG.

For clarity purposes, neither APMPL nor CMPL are part of APMSB and the Company is not a party to the sale and purchase agreement entered into by DKSH SG with the Vendor. Further details of the Proposed Acquisition of Auric Singapore can be found in Section 2.8 of the Circular.

Although the acquisition of APMSB is being made on an arms-length basis from a third party following a competitive bidding process, in view of the inter-conditionality of the completion of the Proposed Acquisition and Proposed Acquisition of Auric Singapore, a major shareholder of DKSH is deemed to be an interested party as set out in Section 8 of the Circular and the Proposed Acquisition is deemed a related party transaction under Chapter 10.08 of the Listing Requirements. Accordingly, the Board (save for the Interested Directors) had on 14 December 2018 appointed FHCA as the Independent Adviser ("**IA**") to the non-interested directors and non-interested shareholders of the Company in relation to the Proposed Acquisition.

SYDNEY
MELBOURNE
ADELAIDE
BRISBANE
PERTH
KUALA LUMPUR
SINGAPORE
TOKYO

Affiliated through:
Zolfo Cooper
CARIBBEAN
UNITED KINGDOM
UNITED STATES
KLC Kennic Lui & Co.
CHINA
HONG KONG

The purpose of this IAL is to provide the non-interested directors and the non-interested shareholders of the Company with an independent evaluation of the Proposed Acquisition, to form an opinion as to whether the Proposed Acquisition is fair and reasonable in so far as the shareholders of the Company are concerned and whether the Proposed Acquisition is to the detriment of the non-interested shareholders as well as to provide a recommendation thereon on the voting of the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM, subject to the limitation of our role and evaluation as explained herein.

Other than for this intended purpose, this IAL should not be used for any other purpose and/or by any other persons and/or reproduced, wholly or partially, without our express written consent.

NON-INTERESTED SHAREHOLDERS OF THE COMPANY ARE ADVISED TO READ THIS IAL AND THE CIRCULAR TOGETHER WITH THE APPENDICES THEREON, AND TO CAREFULLY CONSIDER THE RECOMMENDATIONS CONTAINED HEREIN BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED ACQUISITION TO BE TABLED AT THE FORTHCOMING EGM OF THE COMPANY. IF YOU ARE IN DOUBT ABOUT THE COURSE OF ACTION TO BE TAKEN, YOU SHOULD CONSULT YOUR STOCKBROKER, BANK MANAGER, ACCOUNTANT, SOLICITOR OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

2 LIMITATIONS TO THE EVALUATION OF THE PROPOSED ACQUISITION

FHCA was not involved in the formulation of the Proposed Acquisition or any deliberation and negotiation on the terms and conditions of the Proposed Acquisition. Our role as the IA does not extend to expressing an opinion on the commercial merits of the Proposed Acquisition. The assessment of the commercial merits of the Proposed Acquisition is solely the responsibility of the Board, although we may draw upon their views in arriving at our opinion. As such, where comments or points of consideration are included on matters, which may be commercially oriented, these are incidental to our overall financial evaluation and concern matters, which we may deem material for disclosure. Further, our terms of reference does not include us rendering an expert opinion on legal, accounting and taxation issues relating to the Proposed Acquisition. FHCA's terms of reference as an independent adviser is limited to expressing our independent evaluation of the Proposed Acquisition which is based on the sources of information as highlighted below.

We have evaluated the Proposed Acquisition and in forming our opinion, we have considered factors, which we believe, would be of relevance and general importance to the non-interested shareholders of the Company. Our evaluation is rendered solely for the benefit of the non-interested shareholders of the Company as a whole.

In rendering our advice, we have taken note of the pertinent issues that we have considered important in enabling us to assess the implications of the Proposed Acquisition and therefore of general concern to the non-interested shareholders of the Company. As such:

- (i) The scope of FHCA's responsibility regarding the evaluation and recommendation contained herein is confined to the assessment of the fairness and reasonableness of the Proposed Acquisition and other implications of the Proposed Acquisition only.

Comments or points of consideration which may be commercially oriented such as the rationale and potential benefits of the Proposed Acquisition is included in our overall evaluation as we deem it necessary for disclosure purposes to enable the non-interested shareholders of the Company to consider and form their views thereon;

- (ii) FHCA's views and advice as contained in this IAL only caters to the non-interested shareholders of the Company at large and not to any non-interested shareholders individually.

Hence, in carrying out our evaluation, we have not given consideration to the specific investment objectives, risk profiles, financial and tax situations and particular needs of any individual non-interested shareholder or any specific group of non-interested shareholders; and

- (iii) We recommend that any individual non-interested shareholder or group of non-interested shareholders of the Company who is in doubt as to the action to be taken or required advice in relation to the Proposed Acquisition in the context of their individual objectives, risk profiles, financial and tax situations or particular needs, to consult their respective stockbrokers, bankers, solicitors, accountants or other professional advisers immediately. We shall not be liable for any damage or loss sustained or suffered by any individual shareholder or any group of shareholders in reliance on the opinion stated herein for any purpose whatsoever which is particular to such individual shareholder or group of shareholders.

In performing our evaluation, we have relied on the following sources of information:

- (i) the SPA;
- (ii) APMSB Group's audited consolidated financial statements for the FYE 31 December 2015 to FYE 31 December 2017;
- (iii) APMSB Group's management accounts for the FPE 30 September 2018;
- (iv) APMSB Group's trailing twelve (12) months ("**TTM**") statement of financial performance as at 30 September 2018;
- (v) APMSB Group's financial forecast and projections from FYE 31 December 2019 to FYE 31 December 2023 as provided by the management of APMSB Group ("**Future Financials**");
- (vi) information contained in the Circular and the appendices attached thereto;
- (vii) other relevant information furnished to us by the management of the Company and APMSB Group; and
- (viii) other publicly available information which we deemed relevant and reasonable.

We have made all reasonable enquiries to and have relied on the Board and management of the Company to exercise due care to ensure that all information and documents as mentioned above and all relevant facts, information and representations necessary for our evaluation of the Proposed Acquisition has been disclosed to us and that such information is accurate, valid and there is no omission of material facts, which would make any information provided to us incomplete, misleading or inaccurate.

The Board has, individually and collectively, accepted full responsibility that all material facts, financial and other information essential to our evaluation have been disclosed to us, that they have seen this IAL, and for the accuracy of the information in respect of the Proposed Acquisition (save for those in relation to our evaluation and opinion pertaining to the same) as prepared herein and confirmed that after making all reasonable enquires and to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein incomplete, false and/or misleading. We have not undertaken an independent investigation into the business of the Company and APMSB Group. Based on the above and after undertaking reasonableness check and corroborating such information with independent sources, where possible, we are satisfied with the information and documents provided by the Company and APMSB Group and are not aware of any fact or matter not disclosed which renders any such information untrue, inaccurate, incomplete, omitted or misleading or the disclosure of which might reasonably affect our evaluation and opinion as set out in this IAL. We have also assumed that the Proposed Acquisition will be implemented based on the terms as set out in the SPA without material waiver or modification.

Our evaluation and recommendation expressed herein are based on prevailing economic, market and other conditions, and the information and/or documents made available to us, as at LPD. Such conditions may change over a short period of time.

Accordingly, our evaluation and recommendation expressed herein do not take into account of the information, events and conditions arising after the date hereof. After the dispatch of this IAL, should FHCA become aware of any significant change affecting the information contained in this IAL or have reasonable grounds to believe that any statement in this IAL is misleading or deceptive or have reasonable grounds to believe that there is material omission in this IAL, we will immediately notify the shareholders. If circumstances require, a supplementary IAL will be sent accordingly to the shareholders.

FHCA confirms that it is not aware of any circumstances which exist or are likely to give rise to a possible conflict of interest situation for FHCA to carry out the role as the IA in connection to the Proposed Acquisition. FHCA also confirms that it has not had any professional relationship with the Company in the past two (2) years.

FHCA is an approved corporate financial adviser within the meaning of the Securities Commission of Malaysia's Principal Adviser Guidelines. FHCA has undertaken the role as an independent adviser for corporate exercises in the past twenty-four (24) months prior to LPD, which include amongst others, the following:

- (i) the acquisition of by Raya International Berhad ("**Raya**") of one (1) vessel known as "Sturgeon" for a consideration of RM3,200,000 to be satisfied via the issuance of new ordinary shares in Raya; and one (1) vessel known as "Straits 1" for a cash consideration of RM2,800,000 via cash proceeds raised from the renounceable rights issue together with free warrants via our letter to shareholders dated 25 April 2017;
- (ii) the acquisition by Sedania Innovator Berhad ("**Sedania**") of the entire equity interest in Sedania As Salam Capital Sdn Bhd for a total purchase consideration of RM12.00 million and the diversification of the existing core business of Sedania into the provision of financial technology services via our letter to shareholders dated 2 June 2017;

- (iii) the subscription of 933,334 new ordinary shares by YTB in Iconic Paragon Sdn Bhd (“**IPSB**”) for a cash consideration of RM933,334 and the proposed provision of financial assistance of up to RM130.0 million from YTB to IPSB via our letter to shareholders dated 5 October 2017;
- (iv) the disposal by SYF Resources Berhad (“**SYF**”) of the entire issued share capital in Great Platform Sdn Bhd (“**Great Platform**”), a wholly-owned subsidiary of SYF, comprising 5,000,000 ordinary shares to Mieco Chipboard Berhad (“**Mieco**”) for a cash disposal consideration of RM7,063,341 and the settlement by Mieco of the shareholder’s advances owing by Great Platform to SYF of RM51,528,809 via our letter to shareholders dated 30 November 2017;
- (v) the acquisition by YTB of 2,500,000 ordinary shares in Apple 99 Development Sdn Bhd (“**Apple 99**”), representing the entire equity interest in Apple 99, for a cash consideration of RM15.0 million via our letter to shareholders dated 22 December 2017;
- (vi) the acquisition by Denko Industrial Corporation Berhad of the entire equity interest in Integrated Manufacturing Solutions Sdn Bhd for a purchase consideration of RM1.19 billion via our letter to shareholders dated 12 January 2018; and
- (vii) the disposal of properties by PP Chin Hin Sdn Bhd, a wholly-owned subsidiary of Chin Hin Group Berhad, to Chin Hin Building Materials Supply (JB) Sdn Bhd for a total cash consideration of RM21.15 million via our letter to shareholders dated 30 October 2018.

Premised on the foregoing, FHCA is capable and competent in carrying out its role and responsibilities as the IA to advise the non-interested directors and non-interested shareholders of the Company in relation to the Proposed Acquisition.

3 INTERESTS OF DIRECTORS, MAJOR SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

Save as disclosed below and as set out in Section 8 of the Circular, none of the directors or major shareholders of the Company and/or persons connected to them has any interest, direct or indirect, in the Proposed Acquisition:-

- i) DKSH Holding Ltd is an indirect major shareholder of DKSH by virtue of its shareholding in DKSHRM which is a major shareholder of DKSH, holding 74.31% of the equity interest in DKSH. DKSH Holding Ltd is also the sole shareholder of DKSH SG. DKSH SG is a person connected to the DKSH Holding Ltd as DKSH Holding Ltd is entitled to 100% of the votes attached to the shares of DKSH SG. In view of the above relationships and conditionality of the Proposed Acquisition and Proposed Acquisition of Auric Singapore, the Proposed Acquisition involves the interest of related parties, namely DKSH Holding Ltd, the ultimate shareholder of DKSH and DKSH SG, a person connected to DKSH Holding Ltd.;
- ii) Stephen John Ferraby, Non-Independent Non-Executive Chairman of DKSH, is a member of the Executive Board of DKSH Holding Ltd, and

- iii) Jason Michael Nicholas McLaren and Lian Teng Hai are the Non-Independent Executive Director and Non-Independent Non-Executive Director of DKSH respectively, nominated by DKSHRM.

Accordingly, the Interested Directors have abstained and will continue to abstain from deliberation and voting at all Board meetings of DKSH in relation to the Proposed Acquisition.

The Interested Shareholder, Interested Directors and persons connected to them are required to abstain from voting in respect of their direct and/or indirect shareholdings in DKSH, if any, on the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM for the Proposed Acquisition.

The Interested Shareholder and Interested Directors have also undertaken to ensure that persons connected with them will abstain from voting in respect of their direct and/or indirect shareholdings in DKSH, if any, on the resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM for the Proposed Acquisition.

4 EVALUATION OF THE PROPOSED ACQUISITION

The full details of the Proposed Acquisition are set out in Section 2 of the Circular and should be read and fully understood in their entirety by the non-interested shareholders.

In evaluating the Proposed Acquisition, we have considered the following:

- (i) Rationale for the Proposed Acquisition;
- (ii) Evaluation of the Proposed Acquisition;
 - (a) Justification for the Purchase Consideration; and
 - (b) Salient terms of the SPA;
- (iii) Industry overview and prospects;
- (iv) Risk factors;
- (v) Effects of the Proposed Acquisition; and
- (vi) Other considerations.

The views expressed by FHCA in this IAL are amongst others, based on current economic, market and political conditions prevailing as at the LPD. In this respect, the non-interested shareholders of the Company should take further note of any announcements relevant to their consideration of the Proposed Acquisition which may be released after the LPD.

5 RATIONALE OF THE PROPOSED ACQUISITION

The rationale for the Proposed Acquisition are as set out in Section 3 of the Circular.

APMSB Group is principally engaged in the business of manufacturing and distribution of food items and FMCG. DKSH is also involved in the distribution of food and FMCG.

APMSB Group currently operates in under two (2) business segments namely, the manufacturing and distribution of house brand products and distribution of food and FMCG products. APMSB Group has been in the industry for 52 years since 17 March 1966, with house brands such as “Buttercup” and “SCS” Butter which are among the top selling brands of margarine and butter in Malaysia. APMSB Group’s distribution channel is well established and spreads throughout Malaysia.

The Proposed Acquisition will enable DKSH to expand their network by leveraging on the existing network of APMSB Group vice versa enabling the enlarged DKSH Group to benefit from synergies from fully integrating and streamlining the combined operations and distribution networks.

Based on the historical earnings of the company, APMSB had been performing well and has been continuously improving over the years in both revenues and profitability. The Proposed Acquisition would allow the Company to further grow and expand its businesses taking into consideration the potential synergies of the two companies. This will contribute positively to the earnings of the Company and correspondingly enhance the value of the Company in the long run.

Based on the APMSB's audited financial statements for FYE 31 December 2015, 2016 and 2017 and the latest trailing 12 months ("TTM") management accounts for the FPE 30 September 2018, we note the following:

FYE 31 December	APMSB Group			
	2015	2016	2017	TTM September 2018
Revenue (RM'000)	268.18	273.14	291.95	322.91
EBITDA (RM'000)	13.36	31.12	28.20	34.16
PBT (RM'000)	12.31	29.85	27.18	33.50
PAT (RM'000)	8.94	20.75	20.55	25.80
Shareholders' funds	21.56	42.31	58.86	78.07
Current ratio (%)	1.07	1.23	1.44	1.84
Gross profit margin (%)	27%	34%	29%	29%
EBITDA margin (%)	5%	11%	10%	11%
Return on Equity (%)	41%	49%	35%	33%

N/A – not available

Premised on the above, we are of the opinion that the rationale for the Proposed Acquisition is reasonable and not detrimental to the interests of the non-interested shareholders of the Company. Nonetheless, the non-interested shareholders of the Company should note that the potential benefits arising from the Proposed Acquisition are subject to certain risk factors as disclosed in Section 5 of the Circular.

6 EVALUATION OF THE PROPOSED ACQUISITION

6.1 Justification for the Purchase Consideration

The basis and justification for the Purchase Consideration are set out in Section 2.3 of the Circular.

We noted that the Initial Purchase Price of SGD157.674 million (equivalent to RM480.906 million) (subject to adjustments as set out in Section 2.1.2 of the Circular) for illustrative purpose, was arrived at on a willing-buyer willing-seller basis, after considering the range of indicative values for the entire equity interest in APMSB Group of between SGD146 million (equivalent to RM445 million) and SGD185 million (equivalent to RM564 million) as at the LTD as performed by the management of DKSH based on the DCF method on the future financials of APMSB Group for the Projection Period.

In establishing our opinion on the fairness and reasonableness of the value of equity interest in APMSB, FHCA had considered various methodologies, which are commonly used for valuation of companies, taking into consideration the Company's future earnings generating capabilities, projected future cash flows, its sustainability as well as various business considerations and risk factors affecting its businesses. The following valuation methodologies were considered and selected by FHCA to determine the fair value of the equity interest in APMSB:-

- (i) Discounted Free Cash Flow to Firm ("FCFF") Methodology; and
- (ii) Sum-of-part Valuation ("SOPV").

The primary valuation methodology considered and selected by FHCA to evaluate the equity interest of APMSB is based on the FCFF as this methodology takes into consideration both the time value of money and the projected net cash flow generated by the Company discounted at an appropriately selected discount rate to derive at the valuation of the subject matter. FCFF is the free cash flow available the company after all expenses and reinvestment. FHCA has also taken into consideration the SOPV as the secondary methodology to cross check the results of the FCFF methodology. The SOPV evaluates the operating segments of APMSB separately and compared each segment to its peers within the industry and thereafter combining the value of the segments derived therein.

For the purposes of the valuation methodologies used, we have also considered the selection of comparable companies by the Board in justifying the Purchase Consideration as set out in Section 2.3 of the Circular. We note that the selected comparable companies are principally involved in own brand food manufacturing and distribution and trading and distribution of FMCG companies which are listed on Bursa Securities.

Following our analysis of the percentage of revenue from the relevant activities of the selected comparable companies, we concur with the list of selected comparable companies selected and are of the opinion that they have been reasonably selected.

We have also extracted the trading multiples – price-earnings ("PE") multiple and EV/EBITDA; and other relevant data such as levered and unlevered beta and debt/equity ratio of the selected comparable companies from S&P Capital IQ as at 31 December 2018, being the evaluation date ("ED"), details of which are as follows:-

Company	Business Description
Fraser & Neave Holdings Bhd ("F&N")	F&N is an investment holding company which manufactures and sells soft drinks and dairy products in Malaysia and internationally.
Dutch Lady Milk Industries Berhad ("DLADY")	DLADY manufactures and distributes a range of dairy products primarily in Malaysia.
Kawan Food Berhad ("Kawan")	Kawan is an investment holding company which manufactures, trades, distributes, and sells frozen food products in Malaysia and China.

Company	Business Description
Harisons Holdings (Malaysia) Berhad ("Harisons")	Harisons is an investment holding company which markets, sells and distributes building materials, industrial and agricultural chemicals, liquor and consumer good primarily in Malaysia.
DKSH	DKSH is an investment holding company which provides market expansion services to consumer goods, healthcare, performance materials and technology industries in Malaysia.

Comparable Company	Market Capitalisation (RM 'million)	Levered Beta	Debt/Equity	Adjusted Beta ^[1]	EV/EBITDA ^[3] (times)	PE (times)
F&N	12,426.46	0.19	0.0%	0.46	23.94	32.42
Kawan	686.68	0.72	0.0%	0.81	20.29	29.79
DLady	3,884.80	0.29	0.0%	0.52	21.71	32.34
Harrisons	240.35	0.59	36.6%	0.57	7.92	9.74
DKSH	354.73	1.27	47.3%	0.87	5.64	7.13
Low				0.46	5.64	7.13
Median ^[2]				0.57	20.29	29.79
High				0.87	23.94	32.42

Notes:

- [1] The Beta was adjusted based on the debt/equity ratio of the respective companies then re-levered based on the debt/equity ratio of the APMSB Group.
- [2] We have applied the median metrics of the ratios as we are of the view that it is more reflective when the distribution is skewed and unsymmetrical.
- [3] The EV/EBITDA was computed based on the metrics set by S&P Capital IQ using the EV as at the last close divided by the EBITDA (including equity incorporated from affiliates)

It is important to note that the selected comparable companies tabulated herein are by no means exhaustive and may differ from the APMSB Group in term of, inter alia, composition of business activities, scale of operations, geographical location of operations, profit track record, financial profiles, risk profile, future prospects, capital structure, marketability of their securities and other criteria.

One should also note that any comparisons made with respect to the selected comparable companies are merely to provide a comparison to the implied valuation of the APMSB Group and the selection of comparable companies and adjustments made are highly subjective and judgmental and may not be entirely comparable due to various factors. Because of the susceptibility of valuations to inputs of the model applied, valuation can change quite quickly in response to market changes or changes in the surrounding circumstances, including market outlook (whether in general or relating to the industry itself).

Discounted FCFF Methodology

The Discounted FCFF Methodology is a valuation methodology based on discounted cash flow, involving the application of an appropriately selected discount rate applied on the projected future cash flows to be earned by the company. FCFF is the free cash flow available to the company after all expenses and reinvestment.

The projected FCFF as determined annually shall then be discounted using the cost of capital adjusted based on the gearing level of the company, if any. The cost of capital takes into account a combination of risk factors associated with the industry in which the company is involved in, namely, the systematic risk, i.e. the inherent market risk such as interest rate fluctuation, and the financing mix, i.e. the financing risk. These risks are translated into the required rate of return which is built upon the weighted average cost of capital ("WACC").

The projected FCFF is primarily based on the future cash flows of the APMSB Group as well as various other assumptions made by the management of DKSH. In the evaluation the projected FCFF, we have considered the key assumptions used as elaborated below:-

Revenue
Revenue is expected to increase for FYE 31 December 2019 and FYE 31 December 2020 based on higher number of orders received, with growth rate tapering off while maintaining a growth in revenues until FYE 31 December 2022 of which the management had represented that it was based on the management best estimates, with reference made to the projected volume forecast by its customers. Further, the management of DKSH has represented that the increase in revenue at a reducing trend was due to the organic growth and the business nature of APMSB Group.
The management of DKSH has further represented that any new product development and introduction by its customers were not included in the Future Financials.
Based on the management accounts of the APMSB Group for FPE 30 September 2018, APMSB is on track to meet the projected revenues for FYE 31 December 2018.
Gross profit margin
Historical fluctuations in the gross profit margins of APMSB was due to the fluctuation in raw material prices, specifically anhydrous milk fat, which continues to remain high to date. Going forward, gross profit margin is expected to remain stable throughout the Projection Period. Despite the fluctuation in the prices at materials, the management represents that they will be able to manage this through managing the selling price of their goods.
Marketing and administrative expenses
Marketing and administrative expenses are expected to remain stable throughout the Projection Period. Management had represented that the ability to control costs is due to the efficiency of their operations and streamlining of the business and operations. The costs to be incurred are in line with the historical costs for the APMSB Group.
Projected capital expenditure ("Capex") and operating expenditure
Projected capital expenditure has remained flat throughout the Projection Period. Management is of the view that following the expansion of their plant in FYE 31 December 2018, the existing infrastructure of the APSMB Group is sufficient to support the growth as projected in the Projection Period without major additions to the Capex requirements.
Estimated tax expenses
The statutory tax rate of 24.0% is applied over the entire Projection Period which is in line with the historical tax rate of the APMSB Group.

Working capital
The working capital for the APMSB Group is expected to remain stable throughout the Projection Period in line with the historical working capital of APMSB with improvements in the cash conversion cycles. Management represented that this will be due to better cost management and collections.
Terminal Growth Rate
The perpetual growth rate after the Projection Period is estimated at 1.5%, after considering Malaysia's projected long term gross domestic product growth as extracted from the Economic Intelligence Unit of 3.4%.

We have evaluated the bases and assumptions used in the preparation of the cash flows for the Projection Period and are of the opinion that they have been reasonably prepared on bases reflecting the best currently available estimates and judgement by the management of DKSH on its future financial performance and of which the management of DKSH are solely responsible for the basis and assumptions and the preparation and presentation of the same. It should be noted that these assumptions are highly dependent on, amongst others, the achievability as well as the materialisation of the bases and assumptions used therein. As such, the adoption of such assumptions and projections does not imply that we warrant their validity or achievability. It is also based on prevailing economic, market and other conditions that may change significantly over a relatively short period of time.

In arriving at the appropriate cost of capital for the APMSB Group, we have applied the prevailing Malaysia's risk free rate, market risk premium and median betas of the selected comparable companies with relevant adjustments made taking into consideration the size, gearing, profile and other risk factors that may affect the APMSB Group. For the purpose of determining the cost of capital of APMSB Group, the comparable companies' betas are adjusted (de-gear) for their individual gearing ratios, and the median is then re-gear based on the gearing ratio of the median of the selected comparable companies as at the ED. All information obtained were sourced from S&P Capital IQ as at the ED.

In the evaluation of the equity interest in APMSB, and based on the Discounted FCFF Methodology using inputs from the selected comparable companies, the following were noted:

WACC Inputs	Data
Median Debt/Equity Ratio of the selected comparable companies	0.0%
Risk-Free Rate ^[1]	4.10%
Market Return ^[2]	9.17%
Re-gear Beta ^[3]	0.57
Discount rate derived using WACC ^[4]	6.97%
Value of the 100% equity interest in APMSB derived therefrom ^[5]	RM513.39 million ^{[6][7][8]}

Notes:

[1] Based on the risk-free rate for Malaysia as extracted from Bank Negara Malaysia website. This risk-free rate is based on the yield of ten (10) years Malaysian Government Securities as at the ED.

[2] Based on the historical average market return for Malaysia as extracted from Bloomberg. The historical average market return is based on the average return of FTSE Bursa Malaysia Top 100 Index for the past ten (10) years extracted on the ED, of which the 10-year period is selected as it is reflective of the most recent economic cycle (based on Malaysia's historical GDP data) as well as to commensurate the time horizon selected for the risk-free rate.

- [3] Re-gear beta is based on the median debt/equity ratio of the selected comparable companies as at the ED.
[4] The formula for WACC is as follows:

$$WACC = [\text{Cost of Equity} \times \text{Equity} / \text{Capital}] + [\text{Cost of Debt} \times \text{Debt} / \text{Capital} \times (1 - \text{Corporate Tax Rate})]$$

- [5] Bases used for the computation of the valuation of the equity interest in APMSB is based on the Projection Period being discounted by the discount rate derived from the WACC.
[6] Terminal value is mainly computed via three (3) approaches, which is (a) liquidation value, which mean the net realisable value of a company's asset at end of the projected period (b) multiple approach, which mean the terminal value will be derived based on multiples, i.e. PE multiple and/or EV/EBITDA; and (c) stable growth approach, which assumed that the FCFF will continue to grow at a constant rate in perpetuity. The terminal value of the APMSB Group was computed based on the stable growth model as the APMSB Group's revenue is expected to continue growing on a moderate pace and there are no indication that the APMSB Group will cease its business operation in the near future. The terminal value computed attributed to approximately 79% of the total fair value of the equity interest in APMSB. The terminal value of APMSB adopted in the Discounted FCFF Methodology is computed based on the parameters as stated below:-

$$\text{Terminal Value} = \frac{\text{FCFF}_n \times (1+g)}{\text{WACC}-g}$$

Where;

n = represent time, last year of the Future Financials

WACC = Discount rate derived using WACC

g = terminal growth rate

The terminal value will then be present valued based on the cost of capital computed which in this case amounts to RM402.21 million or 78% of the value of the 100% equity interest in APMSB.

- [7] An illiquidity discount of 35% had been applied to the discounted cash flows to derive the valuation of APMSB based on a study conducted by Ashwath Damodaran titled Marketability and Value: Measuring the Illiquidity Discount which can be found at <http://people.stern.nyu.edu/adamodar/pdfiles/papers/liquidity.pdf>. These studies generally flag up large discounts (25% - 50%) for illiquid assets – with 35% being given as a common median data point – and, as such, valuations of private assets have generally used such 'off the shelf' fixed estimates.
[8] Based on an exchange rate of SGD1.00:RM3.05

Based on the underlying assumptions of the Projection Period, we have performed a sensitivity analysis on three (3) key independent parameters, namely the discount rates, terminal value and FCFF as these assumptions have significant impact on the implied valuation of APMSB. We have stress tested the cash flows by varying the values adopted in the discount rates, terminal value and FCFF on a 1.0%, 0.5% and 10% upward and downward variance respectively on the midpoint of the valuation to arrive at a range of equity valuation of APMSB.

The movement in the terminal value is highly sensitive and the inflation rate of Malaysia has remained fairly stable throughout the past five years. Gross Domestic Product growth have ranged from 5.0% in 2015 to 4.0% in the three quarters of 2018 with each period fluctuating between 0.1% to 0.8% based on information made available by Bank Negara Malaysia. As such we are of the opinion that the movement of 0.5% and 1% are reasonable parameters for sensitivity test for the terminal value and discount rate.

The current movement of the FCFF ranges from 2% to 16% annually. We had selected the 10% upward and downward variance to take into consideration the range of possible fluctuations in the business to not only take into consideration the potential upsides but also the downturn of the business due to unforeseen circumstances.

Results of the sensitivity test is as shown below:-

Sensitivity test Parameters	Intrinsic value of APMSB	
	Low range of value RM' million	High range of value RM' million
Movement in discount rate used ($\pm 1\%$)	482.60	526.02
Movement in terminal value ($\pm 0.5\%$) and discount rate ($\pm 1\%$)	448.71	570.72
Movement in FCFF ($\pm 10\%$) and discount rate ($\pm 1\%$)	434.34	578.62

Premise on the above, the valuation of 100% equity interest in APMSB ranges from RM434.34 million to RM578.62 million. The Purchase Consideration falls within the range of the valuation of 100% equity interest in APMSB.

SOPV

SOPV analysis is often used on measuring the value of a business with distinctively different divisions or varying degrees of equity investments in other companies. Reference is then made to the valuation statistics of publicly listed companies with principal activities that are considered broadly comparable to the business of the company to get an indication of the current market expectation with regards to the implied value of the company.

We have selected the EV/EBITDA multiples as it illustrates the value of a company's business relative to its historical and forecast pre-tax operational cash flow performance without regard to the company's capital structure. The exclusion of non-cash items such as depreciation and amortization from the calculation of EBITDA will allow this method to be more reflective of the company's pre-tax operating cash flow. In addition, the exclusion of interest will discount the effect of differing capital structures of the selected comparable companies.

We have segregated the list of selected comparable companies into those that are involved in own brand food manufacturing and distribution companies and trading and distribution of FMCG only companies as follows:

Company	Market Capitalisation RM' million	EV/EBITDA Times
<u>Food manufacturing and distribution</u>		
F&N	12,426.46	23.94
Kawan	686.68	20.29
DLady	3,884.80	21.71
Low		20.29
Average		21.98
High		23.94
<u>Trading and distribution</u>		
Harrison	240.35	7.92
DKSH	354.73	5.64
Low		5.64
Average		6.78
High		7.92

<u>Food Manufacturing and distribution</u>	
	RM'million
Unaudited EBITDA for TTM for the FPE 30 September 2018	20.22 ^[1]
Enterprise Value (A)^[2]	
Low	410.26
Average	444.44
High	484.07

Debt (C) ^[3]	14.60
Cash (D) ^[3]	30.50

Equity Value of APMSB (A + B - C + D)	
Low	504.84
Average	554.85
High	610.37

Notes:

[1] Breakdown for the respective divisions were provided by the management of APMSB based on the unaudited TTM for FPE 30 September 2018.

[2] Enterprise value was arrived at based on the low, average and high EV/EBITDA multiples of the selected comparable companies X the unaudited EBITDA for the APMSB Group for the respective divisions.

[3] The debt and cash values were derived from the unaudited financial statements of the APMSB Group as at 30 September 2018.

Premise on the above, the valuation of 100% equity interest in APMSB ranges from RM504.84million to RM610.37 million. The Purchase Consideration falls below the range of the valuation of 100% equity interest in APMSB.

Premised on the above valuation methodologies applied, based on the Discounted FCFF and SOPV Methodologies and taking into consideration the Board's opinion as well as the other consideration as set out in Section 2.3 of the Circular, we are of the opinion that the Purchase Consideration is fair and reasonable.

6.2 Salient terms of the SPA

The salient terms of the SPA are disclosed in Section 2.1 of the Circular. The following sets out only a summary of the material terms of the SPA that was considered by us and non-interested shareholders of the Company are advised to read Section 2.1 of the Circular in the entirety. Our comments on the salient terms of the SPA are as follows:-

Salient terms	FHCA's Comments
Sale and Purchase of the APMSB Shares Subject to the terms and conditions of the SPA, DKSH has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the APMSB Shares, being the entire issued shares in APMSB, free from all encumbrances and together with all rights attaching thereto as at the completion of the Proposed Acquisition in accordance with the terms under the SPA.	We are of the opinion that this clause is reasonable and will ensure that the Company will have legal, beneficial and unencumbered ownership of the APMSB Shares upon completion of the Proposed Acquisition.

Salient terms	FHCA's Comments
<p>Purchase Consideration</p> <p>The purchase consideration for the APMSB Shares shall be payable by DKSH to the Vendor in cash. On Completion, the amount payable by DKSH shall be calculated as follows:</p> <p>(a) the Initial Purchase Price; less</p> <p>(b) the estimated net debt of the APMSB Group being the total debt and debt-like items less total cash and cash equivalents by reference to the set of monthly management accounts for the latest calendar month prior to Completion; plus</p> <p>(c) the amount by which the estimated net working capital of the APMSB Group being the total current assets less total current liabilities (both excluding any item to the extent such item has been included as net debt) by reference to the set of management accounts for the latest calendar month prior to Completion exceeds the Reference NWC(1); and less</p> <p>(d) other downward adjustments⁽²⁾ in relation to consents and waivers under the SPA which shall not exceed SGD15,767,400⁽³⁾.</p> <p>Note:</p> <p>(1) Reference NWC means SGD26,061,543. Reference NWC was calculated based on last twelve months average as at 30th September 2018.</p> <p>(2) In the event of any loss of any profit contribution to APMSB Group from certain major principals between the date of the SPA and Completion, there may be a downward adjustment to the purchase consideration of an amount to be calculated by reference to the proportion of the loss attributable to such major principals.</p> <p>(3) SGD15,767,400 is the maximum downward adjustment agreed by the Vendor, which is calculated based on 10% of the Initial Purchase Price.</p>	<p>The adjustments to the Initial Purchase Price will enable the Company to make the necessary adjustments prior to making the final payment to ensure that the financial position of APMSB is not materially affected by issues or matters occurring subsequent to the execution of the SPA. As such the adjustments to the Initial Purchase Price are not detrimental to the shareholders of the Company.</p> <p>Reference NWC of SGD26,061,543 was calculated based on last twelve months average NWC for APMSB as at 30 September 2018. This also ensures that the Vendor will work towards meeting the components of the final Purchase Consideration so that it works in favour of both parties.</p> <p>Downward adjustments of SGD15,767,400 is based on 10% of Purchase Price. This commercial term was to provide for adjustment of up to 10% of Purchase Price; beyond this level, conditions precedent mechanism will apply instead of a price adjustment. This term safeguards the Company against any potential downward adjustments not covered as part of the conditions precedent.</p>

Salient terms	FHCA's Comments
<p>The Purchase Consideration above shall be adjusted so that the final purchase price to be paid for APMSB Shares shall be based on the actual net debt and net working capital of the Group as at Completion. These completion net debt and completion net working capital shall be determined to calculate the adjustments, whether upwards or downwards, within 45 days after the Completion Date and shall be settled by DKSH or the Vendor (as the case may be) in cash on the date falling five business days after they have been determined.</p>	
<p>Conditions precedent</p> <p>The completion of the Proposed Acquisition is conditional upon, amongst others, the satisfaction or waiver (in accordance with the terms of the SPA), of each of the following conditions:</p> <ul style="list-style-type: none"> (a) the approval of the shareholders of LCR having been obtained and such approval remaining in full force and effect as at Completion; (b) the approval of the shareholders of Lippo⁽¹⁾ having been obtained and such approval remaining in full force and effect as at Completion; (c) the approval of the shareholders of DKSH having been obtained and such approval remaining in full force and effect as at Completion; (d) the issue of a manufacturing licence by the Ministry of International Trade and Industry under the Industrial Co-ordination Act 1975 to APFPSB (a wholly-owned subsidiary of APMSB) and if such license is issued subject to terms and conditions, such terms and conditions being reasonably acceptable to DKSH acting in good faith⁽²⁾; and (e) receipt of written waivers of change of control provisions or written confirmation as required from the parties with whom APMSB has entered into certain key distributions agreement. 	<p>We note that generally the conditions precedent form pre-requisites for the Proposed Acquisition to be effected and appear to be reasonable.</p> <p>Terms (a), (b) and (c) are reasonable and in compliance with the listing requirements in the respective jurisdictions. The Listing Requirements also requires that interested directors are to abstain from Board deliberation and both the Interested Directors and Interested Shareholders to abstain from voting on the relevant resolution in respect of the Proposed Acquisition.</p> <p>Terms (d) serves to ensure that the APMSB's operations are in full compliance with all regulatory requirements in order to continue operations without disruptions, prior to the completion of the Proposed Acquisition.</p> <p>Term (e) serves to protect the interest of the Company in the event of any adverse business effects caused by the Proposed Acquisition wherein the Seller will compensate the Purchaser according to the terms in the SPA.</p>

Salient terms	FHCA's Comments
<p>(f) that there shall not have occurred and be continuing any fact, matter, event, circumstance, condition or change which materially and adversely affects the business, results of operations, cash flows or financial condition of the APMSB Group since the date of the SPA;</p> <p>(g) that there is no decree, determination, injunction, judgement or other order (which is final and non-appealable) issued by any court or governmental authority prohibiting consummation of the transaction which remains in force and effect as at Completion; and</p> <p>(h) that there shall not have occurred and be continuing any breach of certain warranties in any material respect.</p> <p>Notes:</p> <p>(1) APGL is an approximately 50.3% indirect subsidiary of LCR, a company incorporated in Hong Kong whose shares are listed on The Stock Exchange of Hong Kong Limited.</p> <p>LCR is an approximately 74.99 % indirect subsidiary of Lippo, also a company incorporated in Hong Kong. Lippo's shares are also listed on The Stock Exchange of Hong Kong Limited.</p> <p>(2) Under the SPA, DKSH acknowledged that such terms and conditions shall be deemed acceptable to DKSH as the purchaser if they do not taken as a whole, result in a material adverse change in the manner in which the manufacturing business of APFPSB is conducted immediately prior to Completion or restrict DKSH as the purchaser from holding or controlling, directly or indirectly, all the outstanding shares in APFPSB.</p>	<p>The following terms serve to protect the interests of DKSH from any materially adverse effects subsequent to the signing of the SPA. We are of the opinion that these terms are in the best interest of the Company and therefore are reasonable and not detrimental to the shareholders.</p>
<p>Long Stop Date</p> <p>The Conditions are to be satisfied on or prior to the "Long-Stop Date" being 5.00 p.m. on the date falling three (3) months after the date of the SPA provided that if at the expiry of such three (3)-month period, the following Conditions are outstanding, namely:</p> <p>(a) The LCR Shareholders' Approval and Lippo Shareholders' Approval and the Vendor is in compliance with its obligations in all material respects with regard to the satisfaction of this condition;</p>	<p>These terms are typical of a transaction of this nature where there are multiple approvals needed to be sought. Taking note of the number of approvals required and potential delays in obtaining these approvals, the period of extension seems fair.</p> <p>As such, the terms of the Long Stop Date are fair and not detrimental to the shareholders of DKSH.</p>

Salient terms	FHCA's Comments
<p>(b) The approval of the shareholders of DKSH and DKSH is in compliance with its obligations in all material respects with regard to the satisfaction of the condition; and</p> <p>(c) The issue of a manufacturing license to APFPSB and the Vendor is in compliance with its obligations in all material respects with regard to the satisfaction of the condition.</p> <p>Then Long-Stop Date shall be automatically extended to the date falling four (4) months after the date of the SPA (or such other time and date as DKSH and the Vendor may agree in writing).</p>	
<p>Completion</p> <p>(a) Completion shall take place at the registered office of the Vendor at 5:00 p.m. on the date falling five (5) business days after the Conditions have been satisfied or waived or at such other place and time as DKSH and the Vendor may agree in writing; and</p> <p>(b) Completion shall not take place unless the sale and purchase of and payment for all (and not some only):</p> <p>(i) the shares in APMSB; and</p> <p>(ii) the shares in APMPL and CMPL pursuant to the share purchase agreement entered into between DKSH SG and the Vendor in relation to the Proposed Acquisition of Auric Singapore,</p> <p>are completed at the same time.</p>	<p>We understand that the completion of the Proposed Acquisition is inter-conditional on the completion of the Proposed Acquisition of Auric Singapore and hence all aspects of both acquisitions have to be completed and fulfilled within the same time frame. The Vendors decision was to dispose of the entire operations in Singapore and Malaysia, therefore inter-conditional to ensure that both companies are disposed of simultaneously.</p> <p>We also note that there are many synergies between the operations of Auric Singapore and APMSB, together with the manufacturing, sales and distribution of products. It will be to the benefit of DKSH to have both Auric Singapore and APMSB under the same controlling shareholders as to ensure the normal business operations of APMSB will be able to continue without disruptions. As such, this terms is deem to be reasonable and not to the detriment of the shareholders of DKSH.</p>
<p>Limitation on the Vendor's liability under the SPA</p> <p>(a) As agreed by the parties under the SPA, the maximum aggregate liability of the Vendor in respect of:</p>	<p>This term sets out the provision for the Company to make claims against the Vendor in the event there is a</p>

Salient terms	FHCA's Comments
<p>(i) a claim for a breach of a fundamental warranty or certain indemnity claims shall not exceed the Purchase Consideration; and</p> <p>(ii) a claim other than a claim for a breach of a fundamental warranty or the specific indemnity claims shall not exceed 20% of the Purchase Consideration which was agreed upon by the Vendor and DKSH after much deliberation and negotiation,</p> <p>provided that the maximum aggregate liability of the Vendor in respect of such claims under paragraph (i) and (ii) above shall not exceed the Purchase Consideration.</p> <p>A fundamental warranty under the SPA is a warranty relating to the Vendor's title and ownership of the Sale Shares and pertaining to matters such as capacity and authority of the Vendor in performing or undertaking the transaction. Specific indemnities covered under sub paragraph (a)(i) are those relating to the manufacturing license of APFPSB and any liability in connection with the allotment and issuance of the Sale Shares. Any other claims arising from breach of warranty (e.g. warranties relating to plant and machinery) or general indemnities fall within sub paragraph (a)(ii) above.</p> <p>(b) Under the SPA, DKSH is required to take out an W&I Insurance Policy arising in respect of insured claims under the SPA. On December 21, 2018 DKSH obtained the W&I Insurance Policy from AIG Malaysia Insurance Berhad and accordingly such policy is in place. DKSH's remedy in respect of any claim that is insured under the W&I Insurance Policy shall solely be under the W&I Insurance Policy and the Vendor has no liability towards DKSH for such claims. Under the terms of the SPA, the insured claims exclude a breach of certain warranties and indemnities given by the Vendor as set out in the SPA for which DKSH retains the right of recourse against the Vendor⁽¹⁾.</p> <p>Note</p> <p>(1) The net premium on the W&I insurance is SGD302,200 excluding stamp duty and service tax and the limit of the insurer's liability for loss notified by DKSH during the policy period is an amount not less than SGD31,534,000 subject to the terms of the policy.</p>	<p>breach of fundamental warranty or specific indemnity.</p> <p>Although capped at 20% of the Purchase Consideration, we note that the negotiated terms in the determination of the final Purchase Consideration should be able to protect the Company against this clause.</p> <p>As the SPA places limits on the maximum liabilities of the Vendor, the Company is required to procure an insurance policy to protect its interest in the event of a breach of the terms of the SPA. Due to the limitations placed within the SPA, the purchase of the W&I Insurance policy will serve to protect the interest of the Company. This will help buffer DKSH against any potential claims in relation to the matters as stated under the term save for certain breaches as mention in term (b).</p> <p>We would also like to highlight that the W&I insurance excludes certain claims and indemnities provided by the Vendor and the Company is not prevented from taking recourse in the event of such breaches. Although the purchase of the W&I insurance is Vendor imposed, the W&I insurance does serve to protect the interest of DKSH. These terms are part of the commercial aspects of the Proposed Acquisition and although there is a cost to be incurred by the Company, in the event of a claim materialising, it will be more cost effective and expedient to claim for the said losses under the W&I Insurance.</p> <p>As this will serve to protect the interest DKSH, we are of the opinion that this term is fair and not to the detriment of the shareholders of DKSH.</p>

Salient terms	FHCA's Comments
<p>Termination</p> <p>(a) If the Vendor or DKSH fails to comply with any of the obligations with regard to Completion, the Vendor (in the case of non-compliance by DKSH) or DKSH (in the case of non-compliance by the Vendor) shall be entitled:</p> <ul style="list-style-type: none"> (i) to fix a new date for Completion being a date not less than 10 nor more than 20 business days after the date initially scheduled for Completion; (ii) to proceed with completion so far as practicable having regard to the defaults which have occurred; or (iii) to terminate the SPA. Upon termination of the SPA, the Vendor shall not have a claim against DKSH and DKSH shall not have a claim against the Vendor, under the SPA, except for any claim arising from any breaches by the Vendor or DKSH of the SPA on or prior to such termination; or in respect of the surviving provisions of the SPA after such termination. 	<p>These terms are common and reasonable as they give the rights to the non-defaulting parties to fix a new date, or to proceed with completion so far as practicable or terminate the SPA. This safeguards the interest of the non-defaulting parties in the event that any of the terms and conditions cannot be satisfied or waived.</p>
<p>Non-Compete</p> <p>The Vendor shall not, and shall cause its affiliates (which will be Lippo and Vendor's affiliates which are controlled by Lippo), not to own, invest, control, acquire, operate, manage, participate, be concerned in, undertake or engage in, directly or indirectly:</p> <ul style="list-style-type: none"> (a) the manufacturing or production of butter or mélange for distribution (i) in the case of butter or mélange under the trademarks disclosed in the SPA in the ASEAN Countries and to the extent not covered therein, any other territory in which the IP Rights has been registered or in respect of which there is a valid application for registration; and (ii) in any other case, in the ASEAN Countries; and (b) subject to certain permitted exceptions, the distribution of certain FMCG products (i) under the IP Rights in the ASEAN Countries and to the extent not covered therein the Foreign Territories; and (ii) in any other case, in Singapore and Malaysia, <p>for a period of three (3) years from the Completion Date.</p>	<p>These terms serve to protect DKSH as it will bind the Vendors in preventing them from starting up a similar business to compete with the APMSB Group in the next three (3) years, save for the distribution of certain FMCG products, post-completion of the Proposed Acquisition. This will allow DKSH sufficient time to consolidate the businesses in the FMCG industry and gain a stronger footing.</p> <p>As such, these terms are in the interest of DKSH and we are of the opinion that these terms are fair and reasonable.</p>

Salient terms	FHCA's Comments
Governing Law The SPA shall be governed by, and construed in accordance with, the Laws of Singapore.	We note that as the completion of the Proposed Acquisition is inter-conditional on the completion of the Proposed Acquisition of Auric Singapore which together spans over two jurisdictions, one set of laws will be determined as the governing law for the ease of enforcement in any eventualities. As there are many similarities within both jurisdictions, we are of the opinion that this term is reasonable and not detrimental to the shareholders of DKSH.

Premised on the above, we are of the view that the abovementioned salient terms of the SPA are fair and reasonable as far as the interests of DKSH are concerned and not detrimental to the interests of the non-interested shareholders of the Company.

7 INDUSTRY OVERVIEW AND PROSPECTS

We take note of the industry overview and prospects of the APMSB Group as disclosed in Section 4 of the Circular.

Overview of the Malaysian Economy

The global gross domestic product ("GDP") growth moderated to 3.3% (Q3 2017: 3.7%) in the third quarter of 2018 due to a slowdown in investment and weak external demand in most advanced economies. Meanwhile, growth in the emerging market and developing economies softened owing to lacklustre infrastructure investment and tightening financial conditions. Global trade slowed down as a result of heightened uncertainty, particularly from trade tensions between the United States and China.

The Malaysian economy grew 4.4% in the third quarter of 2018. Growth was supported by domestic demand (6.9%), particularly private sector expenditure. Private consumption recorded a robust growth of 9% backed by the stable labour market and positive consumer sentiment amid low inflation rate of 0.5%. Private investment increased 6.9% primarily channelled into services and manufacturing sectors. Public consumption grew 5.2% on account of higher spending on supplies and services. Public investment declined 5.5% due to lower capital spending by public corporations.

On the supply side, growth was driven by the services, manufacturing and construction sectors. The services sector expanded 7.2% driven by wholesale and retail trade; information and communication; finance and insurance; and real estate and business services subsectors. The manufacturing sector grew 5% supported by the higher production of electronic and electrical ("E&E"); petroleum, chemical, rubber and plastic products; transport equipment; as well as other manufacturing and repair. The agriculture sector contracted 1.4% due to lower production in oil palm and rubber subsectors. The mining sector contracted 4.6% on account of lower output of natural gas as well as crude oil and condensates following planned and unplanned shutdowns at several plants. The construction sector expanded 4.6% driven by civil engineering and specialised construction activities.

Total trade expanded 5.7% to RM476.8 billion (Q3 2017: RM451 billion) on account of strong trade activity, while the trade surplus registered RM25.2 billion (Q3 2017: RM26.3 billion). Gross exports grew 5.2% mainly driven by mining and manufactured goods. Meanwhile, gross imports rose 6.3% supported by consumption and capital goods.

(Source: Economic Report Third Quarter 2018, Ministry of Finance Malaysia)

Overview of the FMCG Industry in Malaysia

The wholesale and retail trade subsector is expected to remain resilient at 7% and 6.3% in 2018 and 2019, respectively. This is in line with higher consumption activities, especially with the 3 month zero-rated Goods and Services Tax and upward revision of minimum wage rate. In addition, growth of the subsector will be supported by higher sales via e-commerce platforms. As of September 2018, about 3,800 SMEs joined the Digital Free Trade Zone platform.

(Source: Economic Outlook 2019, Ministry of Finance Malaysia)

The Malaysia consumer confidence index continued its surge in the third quarter of 2018 to 127 percentage points, up 10 points from the previous quarter and up 31 points versus Q3 2017, according to The Conference Board Global Consumer Confidence Survey, in collaboration with Nielsen.

This is the highest recorded confidence score in Malaysia, propelling Malaysia to become the third most confident country behind India and Vietnam (up four spots from the previous quarter).

(Source: Based on an extract from Malaysian Consumers Third Most Confident in the World from www.nielsens.com)

Prospects of the DKSH Group

As set out in Section 4.3 of the Circular, the benefits that are expected to arise from the Proposed Acquisition, the enlarged DKSH Group is expected to substantially increase its market share in the FMCG sector, thereby solidify its position as one of the key FMCG distribution players in Malaysia which is expected to contribute positively to the earnings of the enlarged DKSH Group. Moving forward, the enlarged DKSH Group with its combined resources will have enhanced access to larger scale of business opportunities and have better opportunities to access to a wider range of markets and customers as well as a platform to compete more competitively with other FMCG sector players.

The Proposed Acquisition will also allow DKSH to enter the food manufacturing segment with two key brands being "Buttercup" and "SCS".

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Premised on the above, we are of the view that the prospects of the DKSH Group following the completion of the Proposed Acquisition appears to be favourable and barring unforeseen circumstances, is poised to improve its financial performance in the future. As such, we are of the opinion that the Proposed Acquisition is in the best interest of DKSH. Further, upon the completion of the Proposed Acquisition, the benefits from the merging of DKSH Group and APMSB Group appears realisable as both DKSH Group and APMSB Group are involved in the similar business of FMCG distribution and will result in enhanced scale and synergies through, amongst others, the increased distribution network and channels. In addition, the customer base of the enlarged DKSH Group will also be expanded following the completion of the Proposed Acquisition.

Nonetheless, we wish to highlight that all businesses are subject to uncertainties which are not within the Board's control such as, amongst others, change in Government policies, changes in interest rates and global economic conditions.

8 RISK FACTORS

We take note of the risk factors as disclosed in Section 5 of the Circular.

As DKSH is principally involved in distribution of FMCG products, DKSH Group is already exposed to the risk associated with the FMCG industry which the APMSB Group is operating in. As such, the DKSH Group is not expected to be exposed to new business risk as a result of the Proposed Acquisition.

We wish to highlight that although efforts and measures will be taken by DKSH Group to mitigate the risks associated with the Proposed Acquisition, no assurance can be given that one or a combination of the risk factors as stated in Section 5 of the Circular will not occur and give rise to material and adverse impact on the business and operations of the DKSH Group, its financial performance, financial position or prospects thereon.

In evaluating the Proposed Acquisition, non-interested shareholders of the Company should carefully consider the said risk factors and their respective mitigating factors prior to voting on the resolution pertaining to the Proposed Acquisition at the forthcoming EGM of the Company. Non-interest shareholders of the Company should also note that the risk factors mentioned therein are not meant to be exhaustive.

9 EFFECTS OF THE PROPOSED ACQUISITION

The effects of the Proposed Acquisition on DKSH Group as disclosed in Section 6 of the Circular are as follows:-

(i) Share capital and substantial shareholders' shareholdings

The Proposed Acquisition will not have any effect on the share capital and substantial shareholders' shareholdings as the Proposed Acquisition will be satisfied entirely in cash and does not involve the issuance of any new DKSH Shares.

(ii) NA and gearing

Barring unforeseen circumstances, the Proposed Acquisition will not have any significant impact on DKSH's NA.

The gearing of DKSH will increase from 0.05 times to 0.90 times after the Proposed Acquisition on the assumption that bank borrowings will be used to finance the entire Purchase Consideration.

(iii) Earnings and EPS

The Proposed Acquisition is expected to contribute positively to the earnings of the enlarged DKSH Group with the expected income from the APMSB Group in the near future.

Based on the above, we are of the opinion that the effects of the Proposed Acquisition is fair and reasonable and not to the detriment of the non-interested shareholders of the Company.

10 CONCLUSION AND RECOMENDATION

We have assessed and evaluated the Proposed Acquisition and have set out our evaluation in Paragraph 4 to 9 of this IAL.

We summarise the potential advantages and disadvantages of the Proposed Acquisition as follows:

Potential Advantages	Potential Disadvantages
The enlarged DKSH Group will be able to enjoy synergistic benefits in terms of operations, procurement, increased distribution network and reduced administrative cost, which will bode well for the enlarged DKSH Group.	Shareholders will have to take note of the potential risks involved in this Proposed Acquisition which may or may not be realised.
The enlarged DKSH Group will be able to enter into the food manufacturing industry with the house-brands currently held by APMSB Group.	Due to the increase in the gearing of DKSH, the Company may potentially have to incur higher interest costs for future borrowings.

We have taken cognisance of the rationale, financial evaluation, effects, prospects and risk factors of the Proposed Acquisition. Based on our evaluation and comments on the Proposed Acquisition, we are of the opinion that the Proposed Acquisition is **FAIR AND REASONABLE** and are not detrimental to the non-interested shareholders of the Company.

Accordingly, we recommend that the non-interested shareholders of the Company TO VOTE IN FAVOUR of the ordinary resolution pertaining to the Proposed Acquisition to be tabled at the forthcoming EGM of the Company.

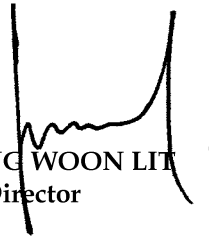
Before arriving at the decision to vote on the ordinary resolution pertaining to the Proposed Acquisition, it is pertinent that the non-interested shareholders of the Company consider the issues and implication raised in this IAL as well as other considerations set out in the Circular carefully and the recommendation of the Board (save for the Interested Directors) as set out in Section 9 of the Circular.

Yours faithfully

FHMH CORPORATE ADVISORY SDN BHD



DING SU-LYNN
Associate Director



NG WOON LIT
Director

INFORMATION ON APMSB

1.0 HISTORY AND BUSINESS

APMSB was incorporated in Malaysia on March 17, 1966 pursuant to a provision to the Companies Ordinance 1940, which was applicable before the coming into force of the Companies Act 1965, the predecessor to the Act, as a private limited company under the name of Cold Storage (Borneo) Limited. Before assuming the current name on May 6, 1994, APMSB was known as:

- Cold Storage (Borneo) Limited until April 14, 1966;
- Cold Storage (Borneo) Sdn. Berhad from April 15, 1966 until December 16, 1973;
- Magnolia Dairies (Malaysia) Sdn. Berhad from December 17, 1973 until May 29, 1991; and
- SCS Marketing Sdn. Bhd from May 30, 1991 until May 5, 1994.

The date of incorporation and principal activities of the subsidiaries of APMSB are set out in Section 4 of Appendix I. There has been no change in the companies' principal activities for the past three (3) years.

APMSB is principally involved in investment holding activities, whilst the principal activities of the subsidiaries include the following:

(i) **Distribution and marketing of global consumer products**

APMSB, through its subsidiary Auric Marketing Sdn Bhd ("**AMSB**"), offers full range of value added services of complete brand management solutions for brands such as Emborg, McCain, Mondelez and Mission Food, these services includes:

- (a) Warehousing, delivery and invoicing – provides storage and management of inventory, delivery of inventory to retailers and food services customers, invoice management on behalf of principals.
- (b) Key account management – promote products to retailers and prepare volume forecasts, work with retailers to plan self-space and increase visibility and overall execution of sales plan;
- (c) Merchandising and executions – retail channel management and on the ground execution of sales strategy;
- (d) Trade marketing and promotions – overall management of promotion campaigns and development of marketing campaigns targeting specific customer channels; and
- (e) Revenue and pricing management – analyse sales volumes and effectiveness of promotional spend, study of competitive products and pricing movement.

(ii) **Manufacturing and distribution of butter and melange products**

APMSB, through its subsidiary APFP, is involved in the manufacturing and distribution of butter and melange products under the brand name of SCS and Buttercup respectively, to AMSB and Auric Pacific Marketing Pte Ltd.

APFP operates one (1) leased manufacturing plant located at No.9 & 11, Jalan Pahat 16/8A, Section 16, 40000 Shah Alam, Selangor, with a built-up area of 11,270 square feet for the production of melange.

INFORMATION ON APMSB (CONT'D)

As at the LPD, APMSB head office is located at the following premise:

Lot 35, Jalan Delima 1/3,
Subang Hi-Tech Industrial Park, Batu Tiga,
40000 Shah Alam, Selangor

1.1 Principal markets for APMSB's products

Breakdown of the APMSB Group's principal markets by region and respective percentage of revenue for FYE December 31, 2017 are set out below:

Country	RM'000	%
Malaysia	285,428	99.35
Singapore	1,266	0.44
Others	598	0.21
Total	287,292	100.00

1.2 Principal source of APMSB's raw materials

The raw materials sourced by the APMSB Group comprise mainly of anhydrous milk fat, palm oil and palm kernel oil, which are mainly purchased from New Zealand and Malaysia.

1.3 Production capacity of APMSB

The annual production capacity and actual output of APMSB's manufacturing plant for the past three (3) financial years up to the FYE December 31, 2017 are set out below:-

	<-----FYE December 31----->		
	2015	2016	2017
Capacity (kg)	8,400,000	8,400,000	8,400,000
Output (kg)	3,887,061	5,131,425	5,655,566

2. SHARE CAPITAL

As at the LPD, the issued share capital of APMSB is RM1,000,000 comprising 1,000,000 APMSB Shares.

3. DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

As at the LPD, the directors of APMSB and their respective shareholdings are as follows:

Name	Nationality	Designation	Direct		Indirect	
			No. of APMSB Shares	%	No. of APMSB Shares	%
Choy Siew Ping	Malaysian	Director	-	-	-	-
Chew Wen Chin	Malaysian	Director	-	-	-	-
Christopher Tan Yang Khoon	Singaporean	Director	-	-	-	-

INFORMATION ON APMSB (CONT'D)

As at the LPD, the substantial shareholders of APMSB and its respective shareholdings are as follows:

Name	Country of incorporation	Direct		Indirect	
		No. of APMSB Shares	%	No. of APMSB Shares	%
APGL	Singapore	1,000,000	100	-	-

4. SUBSIDIARIES AND ASSOCIATED COMPANIES

As at the LPD, the subsidiaries of APMSB are set out below:

Subsidiary	Date and Place of Incorporation	Principal Activities	Effective Equity Interest	Issued and Paid-Up Share Capital (RM)
AMSB	: June 6, 2003, Malaysia	Supply of bakery and confectionery materials and other general products	100%	⁽³⁾ 10,100,000
APFP	: June 2, 2003, Malaysia	Manufacturer of and dealer in butter, margarine and related confectionery products	100%	⁽⁴⁾ 1,010,000
Auric Pacific Bakeries Sdn. Bhd. ⁽¹⁾	: September 2, 2005, Malaysia	Dormant	100%	2
Classic Aspire Sdn. Bhd. ⁽¹⁾	: September 21, 1992, Malaysia	Dormant	⁽²⁾ 60%	⁽⁵⁾ 14,350,000

Notes:

- (1) In the midst of members' voluntary winding up.
- (2) 60% of ordinary shares held by APMSB and remaining 40% held by APGL. APGL also holds 100% of the preference shares in Classic Aspire Sdn Bhd.
- (3) AMSB has issued 12,000,000 ordinary shares, out of which RM10,100,000 is paid-up, while the balance of RM1,900,000 is unpaid.
- (4) APFP has issued 1,200,000 ordinary shares, out of which RM1,010,000 is paid-up, while the balance of RM190,000 is unpaid.
- (5) Comprising 100,000 ordinary shares and 14,250,000 cumulative convertible redeemable preference shares.

As at the LPD, APMSB does not have any associated companies.

INFORMATION ON APMSB (CONT'D)

5. MATERIAL COMMITMENTS

Save as disclosed below, as at the LPD, the board of directors of APMSB is not aware of any material commitments incurred or known to be incurred by the APMSB Group which may upon becoming enforceable may have a material impact on the financial position or the business of the APMSB Group:

	RM'000
Approved and contracted for:	
AMSB Shah Alam Office tenancy	1,151
APFP Shah Alam Factory tenancy	538
Oil Storage tanks	537
Total	2,226

6. MATERIAL CONTINGENT LIABILITIES

Save as disclosed below, as at the LPD, the board of directors of APMSB is not aware of any material contingent liabilities incurred or known to be incurred by the APMSB Group which, upon becoming enforceable, may have a material impact on the financial position or the business of the APMSB Group:

	RM'000
Bank guarantee issued to a principal for credit limit granted to APMSB on trade purchase	535
Bank guarantee issued, on behalf of APMSB's related company, to contractor for the construction of factory	561
Total	1,096

7. MATERIAL CONTRACTS

As at the LPD, the APMSB Group has not entered into any material contracts (not being contracts entered into the ordinary course of business) within the two (2) years immediately preceding the LPD.

8. MATERIAL LITIGATION, CLAIMS OR ARBITRATION

As at the LPD, the APMSB Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and the board of directors of APMSB is not aware and does not have any knowledge of any proceedings pending or threatened against the APMSB Group, or of any facts likely to give rise to any proceedings, which may have a material impact on the financial position or the business of the APMSB Group.

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INFORMATION ON APMSB (CONT'D)

9. SUMMARY OF FINANCIAL INFORMATION

A summary of the financial information of the APMSB Group based on the audited consolidated financial statement of APMSB for the FYE December 31, 2015, FYE December 31, 2016 and FYE December 31, 2017 and the latest unaudited consolidated financial results of APMSB for the nine (9) months FPE September 30, 2017 and FPE September 30, 2018 are set out below:

	<-----Audited----->			<----Unaudited---->	
	FYE December 31			FPE September 30	
	2015	2016	2017	2017	2018
	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	268,179	273,135	291,951	221,119	248,543
PBT ⁽¹⁾	12,310	29,848	27,181	19,812	26,133
PAT ⁽¹⁾	8,942	20,747	20,551	14,010	19,210
Share capital	1,000	1,000	1,000	1,000	1,000
Total equity/NA	21,558	42,305	58,856	56,382	78,067
Total borrowings (all interest-bearing debts)	5,000	7,154	13,093	7,200	14,600
Number of APMSB Shares ('000)	1,000	1,000	1,000	1,000	1,000
NA per APMSB Share (RM)	21.56	42.31	58.86	56.38	78.06
Gross EPS (RM) ⁽²⁾	12.31	29.85	27.18	19.81	26.13
Net EPS (RM) ⁽³⁾	8.94	20.75	20.55	14.01	19.21
Current ratio (times) ⁽⁴⁾	1.07	1.23	1.44	1.45	1.84
Gearing ratio (times) ⁽⁵⁾	0.23	0.17	0.22	0.13	0.19

Notes:

- (1) There are no non-controlling interests in APMSB for the financial years/period under review.
- (2) PBT divided by number of APMSB Shares.
- (3) PAT divided by number of APMSB Shares.
- (4) Current assets divided by current liabilities.
- (5) Total interest-bearing borrowings divided by NA.

There was no exceptional or extraordinary item during the financial years/period under review. There was no accounting policy adopted by APMSB which are peculiar to APMSB because of the nature of the business or the industry it is involved in and there was no audit qualification of financial statements of APMSB for the financial years under review.

Commentary on the past financial performance

FYE December 31, 2015

For the FYE December 31, 2015, revenue of APMSB increased by approximately RM20.52 million or 8.29% as compared to the preceding financial year primarily by greater penetration into more Food Service and retail market resulting in higher sales

The PBT increased by approximately RM1.66 million or 15.59% as compared to the FYE December 31, 2014. This was mainly due to higher gross profit margin achieved for the FYE December 31, 2015.

The PAT increased by approximately RM0.43 million or 5.05% as compared to the FYE December 31, 2014. This was mainly due to higher gross profit margin achieved for the FYE December 31, 2015.

INFORMATION ON APMSB (CONT'D)**FYE December 31, 2016**

For the FYE December 31, 2016, revenue of APMSB increased by approximately RM4.96 million or 1.85% as compared to the preceding financial year, mainly due to higher revenue contribution from the manufacturing segment, arising from updated and strengthened product range and brand identity with new packaging.

The PBT increased by approximately RM17.54 million or 142.47% as compared to the FYE December 31, 2015. This resulted from higher gross profit margin coupled with higher interest income.

The PAT increased approximately RM11.81 million or 132.02% as compared to the FYE December 31, 2015. This resulted from higher gross profit margin coupled with higher interest income.

FYE December 31, 2017

For the FYE December 31, 2017, revenue of APMSB increased by approximately RM18.82 million or 6.89% as compared to the preceding financial year, mainly due to the increase in demand of both international brands and house-brand products.

The PBT decreased by approximately RM2.67 million or 8.94% as compared to the FYE December 31, 2016. This resulted from lower gross profit margin for butter related products. This impact was slightly mitigated by operating expenses cost savings, such as a reduction in provision for stock obsolescence.

The PAT decreased by approximately RM0.20 million or 0.94% as compared to the FYE December 31, 2016. This resulted from lower gross profit margin for butter related products. This impact was slightly mitigated by operating expenses cost savings, such as a reduction in provision for stock obsolescence.

FPE September 30, 2018

For the nine (9) months FPE September 30, 2018, revenue of APMSB increased by approximately RM27.42 million or 12.40% as compared to FPE September 30, 2017 mainly due to revenue increase from existing clients following better penetration into more food stores, commercial partnership with a new principal for the distribution of their products and steady growth in revenue contribution from butter-related house-brand products mainly driven by the increase in volume.

The PBT increased by approximately RM6.32 million or 31.90% as compared to the FPE September 30, 2017. This resulted from higher gross profit margin from international brand segment.

The PAT increased by approximately RM5.20 million or 37.11% as compared to the FPE September 30, 2017. This resulted from higher gross profit margin from international brand segment.

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**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER
31, 2017**

AURIC PACIFIC (M) SDN. BHD.
(17634-V)
(Incorporated in Malaysia)

Directors' Report and audited Financial Statements
31 December 2017

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

17634-V

**Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)**

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

Directors' report

The directors have pleasure in presenting their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2017.

Principal activities

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are disclosed in Note 10 to the financial statements.

Results

	Group RM	Company RM
Profit net of tax	<u>20,551,216</u>	<u>106,847</u>
Attributable to:		
Owner of the parent	20,560,097	106,847
Non-controlling interests	<u>(8,881)</u>	<u>-</u>
	<u>20,551,216</u>	<u>106,847</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

Dividend

The amount of dividend paid by the Company since 31 December 2016 was as follows:

RM

In respect of the financial year ended 31 December 2015:

Interim single-tier dividend of 5834.9% on 1,000,000 ordinary shares declared on 31 December 2015 and paid on:

28 July 2017	5,000,000
2 August 2017	20,000,000
4 December 2017	20,000,000
12 December 2017	4,349,000
20 December 2017	<u>9,000,000</u>
	<u>58,349,000</u>

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

Directors

The names of the directors of the Company in office since the beginning of the financial year to the date of this report are:

Choy Siew Ping	
Chew Wen Chin	(Appointed on 27 December 2017)
Mark Weng Kwai	(Appointed on 18 January 2018)
Liew Kok Hong	(Resigned on 11 July 2017)
Yeo Kia Yeow Lawrence	(Resigned on 27 December 2017)

The names of the directors of the subsidiaries of the Company since the beginning of the financial year to the date of this report, not including those directors listed above, are:

Siow Siew Chin	
Ong Teong Dee	(Resigned on 23 June 2017)

Directors' benefits

Neither at the end of the financial year, nor at any time during that year, did there subsist any arrangement to which the Company was a party, whereby the directors might acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by directors as disclosed below) by reason of a contract made by the Company or a related corporation with any director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, except as disclosed in Note 26 to the financial statements.

During the year, the benefits received and receivable by the directors of the Group are as set out below:

	Group RM
Salaries	701,097
Bonus	201,000
Defined contribution plan	86,917
Social security contribution	2,002
Other	158,397
	<u>1,149,413</u>

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

Indemnities to directors, officers or auditors

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been the director or officer of the Company.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the end of the financial year.

Directors' interests

According to the register of directors' shareholdings, none of the directors in office at the end of the financial year had any interest in shares in the Company, its immediate holding company or its related corporations during the financial year.

Other statutory information

- (a) Before the statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:
 - (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business have been written down to an amount which they might be expected so to realise.
- (b) At the date of this report, the directors are not aware of any circumstances which would render:
 - (i) the amount written off for bad debts or the amount of the allowance for doubtful debts inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and of the Company misleading or inappropriate.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

17634-V

Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

Other statutory information (contd.)

(e) At the date of this report there does not exist:

- (i) any charge on the assets of the Group and of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
- (ii) any contingent liability in respect of the Group and of the Company which has arisen since the end of the financial year.

(f) In the opinion of the directors:

- (i) no contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which will or may affect the ability of the Group and of the Company to meet its obligations as and when they fall due; and
- (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to affect substantially the results of the Group and of the Company for the financial year in which this report is made.

Ultimate holding company

The ultimate holding company is Lippo Capital Group Limited, a company incorporated in Hong Kong.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

Auditors and auditors' remuneration

The auditors, Ernst & Young, have expressed their willingness to continue in office.

Auditors' remuneration for the Group and the Company amounted to RM157,496 and RM34,000 respectively.

Signed on behalf of the Board in accordance with a resolution of the directors dated **25 JUN 2018**



Choy Siew Ping



Chew Wen Chin

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

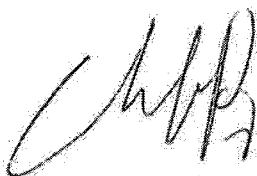
17634-V

Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

Statement by directors
Pursuant to Section 251(2) of the Companies Act 2016

We, Choy Siew Ping and Chew Wen Chin, being two of the directors of Auric Pacific (M) Sdn. Bhd., do hereby state that, in the opinion of the directors, the accompanying financial statements set out on pages 11 to 61 are drawn up in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 25 June 2018.



Choy Siew Ping



Chew Wen Chin

Statutory declaration
Pursuant to Section 251(1)(b) of the Companies Act 2016

I, Chew Wen Chin, being the director primarily responsible for the financial management of Auric Pacific (M) Sdn. Bhd., do solemnly and sincerely declare that the accompanying financial statements set out on pages 11 to 61 are in my opinion correct, and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

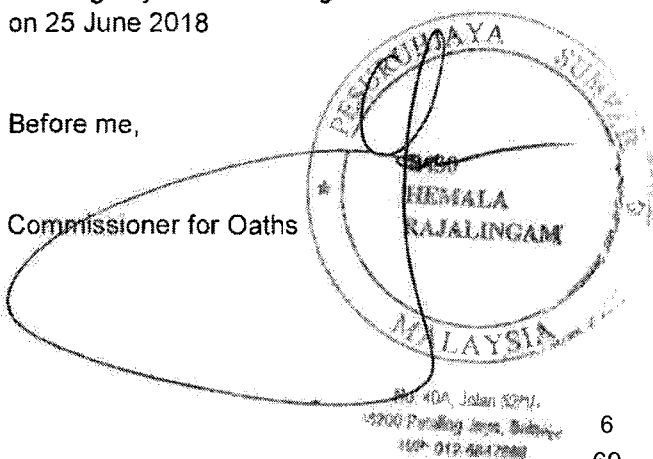
Subscribed and solemnly declared by
the abovenamed Chew Wen Chin at
Petaling Jaya in the Selangor Darul Ehsan
on 25 June 2018



Chew Wen Chin

Before me,

Commissioner for Oaths



AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)



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**Independent auditors' report to the member of
Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)**

Report on the financial statements

Opinion

We have audited the financial statements of Auric Pacific (M) Sdn. Bhd., which comprise the statements of financial position as at 31 December 2017 of the Group and of the Company, and statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, as set out on pages 11 to 61.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017, and of their financial performances and cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

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 Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the 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.

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the Directors' report, but does not include the financial statements of the Company and our auditors' report thereon.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)



17634 V

**Independent auditors' report to the member of
Auric Pacific (M) Sdn. Bhd. (contd.)**

Information other than the financial statements and auditors' report thereon (contd.)

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the directors are responsible for assessing the Group's and the Company'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 the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company 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 statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)



17634 V

**Independent auditors' report to the member of
Auric Pacific (M) Sdn. Bhd. (contd.)**

Auditors' responsibilities for the audit of the financial statements (contd.)

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

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, 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 and of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company'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 statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the 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.
- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)



17634 V

Independent auditors' report to the member of
Auric Pacific (M) Sdn. Bhd. (contd.)

Auditors' responsibilities for the audit of the financial statements (contd.)

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

Other matter

This report is made solely to the member of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to be "EY", is written over a horizontal line.

Ernst & Young
AF : 0039
Chartered Accountants

A handwritten signature in black ink, appearing to be "Lim Eng Huat", is written over a horizontal line.

Lim Eng Huat
No. 02403/04/2019 J
Chartered Accountant

Penang, Malaysia
Date: 25 June 2018

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

17634-V

Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

Statements of comprehensive income
For the financial year ended 31 December 2017

		Group		Company	
	Note	2017	2016	2017	2016
		RM	RM	RM	RM
Revenue	4	291,951,216	273,135,409	-	-
Cost of sales		(208,384,744)	(181,297,373)	-	-
Gross profit		83,566,472	91,838,036	-	-
Other operating income	5	2,662,157	1,331,941	191,715	-
Other operating expenses		(11,386,149)	(13,235,776)	(2)	(111,333)
Selling and distribution expenses		(41,814,659)	(43,743,469)	-	-
Administrative expenses		(5,477,753)	(6,236,342)	(49,049)	(40,002)
Operating profit/(loss)		27,550,068	29,954,390	142,664	(151,335)
Finance costs	6	(368,767)	(106,580)	-	-
Profit/(Loss) before tax	7	27,181,301	29,847,810	142,664	(151,335)
Income tax expense	8	(6,630,085)	(9,101,220)	(35,817)	(343,097)
Profit/(Loss) net of tax, representing total comprehensive income for the year		20,551,216	20,746,590	106,847	(494,432)
Attributable to:					
Owners of the parent		20,560,097	20,754,762	106,847	(494,432)
Non-controlling interests		(8,881)	(8,172)	-	-
		20,551,216	20,746,590	106,847	(494,432)

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

17634-V

Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

Statements of financial position
As at 31 December 2017

		Group		Company	
	Note	2017 RM	2016 RM	2017 RM	2016 RM
Assets					
Non-current assets					
Plant and equipment	9	2,535,957	2,288,796	-	-
Investments in subsidiaries	10	-	-	23,529,514	23,529,516
Goodwill on consolidation	11	6,054,924	6,054,924	-	-
Deferred tax assets	12	<u>3,575,422</u>	<u>1,565,428</u>	-	-
		<u>12,166,303</u>	<u>9,909,148</u>	<u>23,529,514</u>	<u>23,529,516</u>
Current assets					
Inventories	13	67,819,852	46,148,589	-	-
Trade receivables	14	64,185,599	60,782,929	-	24,973,158
Other receivables	15	3,823,826	3,029,133	856,086	31,471,277
Tax recoverable		856,468	340,423	205,444	205,444
Other current assets	16	118,951	100,915	-	-
Cash and bank balances	17	<u>15,197,806</u>	<u>65,670,384</u>	<u>111,321</u>	<u>185,387</u>
		<u>152,002,502</u>	<u>176,072,373</u>	<u>1,172,851</u>	<u>56,835,266</u>
Total assets		<u>164,168,805</u>	<u>185,981,521</u>	<u>24,702,365</u>	<u>80,364,782</u>

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

17634-V

Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

Statements of financial position (contd.)
As at 31 December 2017

		Group		Company	
	Note	2017 RM	2016 RM	2017 RM	2016 RM
Equity and liabilities					
Current liabilities					
Trade payables	18	42,371,148	31,470,279	2,325,290	2,325,290
Other payables	19	49,848,373	104,623,299	18,095,462	73,864,726
Borrowings-unsecured	20	13,093,000	7,154,000	-	-
Loan from immediate holding company		-	428,875	-	-
		<u>105,312,521</u>	<u>143,676,453</u>	<u>20,420,752</u>	<u>76,190,016</u>
Net current assets/ (liabilities)		<u>46,689,981</u>	<u>32,395,920</u>	<u>(19,247,901)</u>	<u>(19,354,750)</u>
Total liabilities		<u>105,312,521</u>	<u>143,676,453</u>	<u>20,420,752</u>	<u>76,190,016</u>
Equity attributable to owner of the parent					
Share capital	21	1,000,000	1,000,000	1,000,000	1,000,000
Retained earnings	22	60,228,427	39,668,330	3,281,613	3,174,766
		<u>61,228,427</u>	<u>40,668,330</u>	<u>4,281,613</u>	<u>4,174,766</u>
Non-controlling interests		<u>(2,372,143)</u>	<u>1,636,738</u>	<u>-</u>	<u>-</u>
Total equity		<u>58,856,284</u>	<u>42,305,068</u>	<u>4,281,613</u>	<u>4,174,766</u>
Total equity and liabilities		<u>164,168,805</u>	<u>185,981,521</u>	<u>24,702,365</u>	<u>80,364,782</u>

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

17634-V

Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

Statements of changes in equity
For the financial year ended 31 December 2017

Group	Attributable to owner of the parent		Non- controlling interests RM	Equity Total RM
	Share capital RM	Distributable Retained earnings RM		
At 1 January 2016	1,000,000	18,913,568	1,644,910	21,558,478
Total comprehensive income for the year	-	20,754,762	(8,172)	20,746,590
At 31 December 2016	<u>1,000,000</u>	<u>39,668,330</u>	<u>1,636,738</u>	<u>42,305,068</u>
At 1 January 2017	1,000,000	39,668,330	1,636,738	42,305,068
Total comprehensive income for the year	-	20,560,097	(8,881)	20,551,216
Transaction with owner:				
Waiver of advance to immediate holding company	-	-	(4,000,000)	(4,000,000)
At 31 December 2017	<u>1,000,000</u>	<u>60,228,427</u>	<u>(2,372,143)</u>	<u>58,856,284</u>

Company	Distributable		Equity Total RM
	Share capital RM	Retained earnings RM	
At 1 January 2016	1,000,000	3,669,198	4,669,198
Total comprehensive income for the year	-	(494,432)	(494,432)
At 31 December 2016	<u>1,000,000</u>	<u>3,174,766</u>	<u>4,174,766</u>
At 1 January 2017	1,000,000	3,174,766	4,174,766
Total comprehensive income for the year	-	106,847	106,847
At 31 December 2017	<u>1,000,000</u>	<u>3,281,613</u>	<u>4,281,613</u>

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

17634-V

Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

Statements of cash flows
For the financial year ended 31 December 2017

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Cash flows from operating activities				
Profit/(Loss) before tax	27,181,301	29,847,810	142,664	(151,335)
Adjustments for:				
Depreciation of property, plant and equipment	651,530	1,163,826	-	-
(Gain)/Loss on disposal of property, plant and equipment	(15,160)	35,241	-	-
Write off of investment	-	-	2	-
Impairment loss on receivables, net of recoveries	746,136	1,385,228	-	-
Writedown of slow moving inventories	2,902,338	4,871,198	-	-
Interest income	(1,318,200)	(1,159,595)	-	-
Interest expense	368,767	106,580	-	-
Unrealised foreign exchange(gain)/ loss	(797,077)	346,100	(191,715)	343,329
Operating cash flows before working capital changes	29,719,635	36,596,388	(49,049)	191,994
Increase in inventories	(24,573,601)	(6,807,191)	-	-
(Increase)/Decrease in receivables	(4,558,154)	5,170,104	24,973,158	11,832,418
Increase/(Decrease) in payables	11,975,281	4,851,565	(14,259)	(8,480,109)
Cash generated from operations	12,563,161	39,810,866	24,909,850	3,544,303
Interest paid	(368,767)	(106,580)	-	-
Tax paid	(9,156,124)	(5,524,435)	(35,817)	-
Net cash generated from operating activities	3,038,270	34,179,851	24,874,033	3,544,303

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

17634-V

Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)Statements of cash flows (contd.)
For the financial year ended 31 December 2017

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Cash flows from investing activities				
Purchase of property, plant and equipment	(995,987)	(771,095)	-	-
Interest received	1,318,200	1,159,595	-	-
Proceeds from disposal of plant, property and equipment	112,457	31,320	-	-
Net cash generated from investing activities	434,670	419,820	-	-
Cash flows from financing activities				
Advance to immediate holding company	(4,000,000)	-	-	-
Repayment of short term intercompany loans	(428,875)	-	-	(4,700,000)
Changes in holding company and related companies balances, net	2,893,357	(648,907)	2,836,901	841,626
Net drawdown of short term borrowings	5,939,000	2,154,000	-	-
Dividends received	-	-	30,564,000	-
Dividends paid	(58,349,000)	-	(58,349,000)	-
Net cash (used in)/generated from financing activities	(53,945,518)	1,505,093	(24,948,099)	(3,858,374)
Net (decrease)/increase in cash and cash equivalents	(50,472,578)	36,104,764	(74,066)	(314,071)
Cash and cash equivalents at beginning of year	65,670,384	29,565,620	185,387	499,458
Cash and cash equivalents at end of year	15,197,806	65,670,384	111,321	185,387
Cash and cash equivalents at end of year				
Cash on hand and at bank	15,197,806	65,670,384	111,321	185,387
	15,197,806	65,670,384	111,321	185,387

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)Statements of cash flows (contd.)
For the financial year ended 31 December 2017

Group	1 January 2017 RM	Drawdown RM	Repayment RM	31 December 2017 RM
Bankers' acceptances	7,154,000	36,093,000	(30,154,000)	13,093,000
	Transaction with owner:			
		Waiver of advance RM	Cash inflow RM	Dividend payment RM
		Advance RM		
Group				
Changes in holding company and related companies balances, net	83,470,921	(446,187)	(428,875)	27,140,216
		Unrealised forex RM	Unrealised forex RM	
		1 January 2017 RM	Dividend 'received' RM	31 December 2017 RM
Company				
Changes in holding company and related companies balances, net	42,214,779	(191,715)	2,836,901	17,074,965

The accompanying accounting policies and explanatory information form an integral part of the financial statements.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

Notes to the financial statements
For the financial year ended 31 December 2017

1. Corporate information

The Company is a private limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Unit 30-01, Level 30, Tower A, Vertical Business Suite Avenue 3, Bangsar South, No.8 Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia.

The Company's immediate holding company is Auric Pacific Group Limited, a limited liability company incorporated and domiciled in Singapore. Auric Pacific Group Limited's holding company is Lippo China Resources Limited ("LCR"), a limited liability company incorporated in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") and whose shares are listed on The Stock Exchange of Hong Kong Limited. The ultimate holding company of the Company is Lippo Capital Group Limited, a company incorporated in Hong Kong.

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are disclosed in Note 10 to the financial statements.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 25 June 2018.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards and the requirements of the Companies Act 2016.

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Ringgit Malaysia ("RM").

The immediate holding company, Auric Pacific Group Limited has given its undertaking to provide continuous financial support to enable the Company to continue as a going concern and to meet all its obligations and outstanding liabilities as and when they fall due.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

2. Summary of significant accounting policies (contd.)

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2017, the Group and the Company have adopted the following new and amended MFRSs mandatory for annual financial periods beginning on or after 1 January 2017.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 107: Disclosure Initiative	1 January 2017
Amendments to MFRS 112: Recognition of Deferred Tax Assets Unrealised Losses	1 January 2017
Annual Improvements to MFRSs 2014 - 2016 Cycle (Amendments to MFRS 12)	1 January 2017

Adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group and of the Company except for those discussed below:

Amendments to MFRS 107: Disclosure Initiative

The amendments to MFRS 107 Statement of Cash Flows requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of this amendment, entities are not required to provide comparative information for preceding periods.

The Group and the Company have disclosed the information in the statements of cash flows.

2.3 Standards and interpretations issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and of the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

2. Summary of significant accounting policies (contd.)

2.3 Standards Issued but not yet effective (contd.)

Description	Effective for annual periods beginning on or after
Annual Improvements to MFRSs 2014 - 2016 Cycle (Amendments to MFRS 1 and MFRS 128)	1 January 2018
MFRS 15: Revenue from Contracts with Customers	1 January 2018
MFRS 15: Clarifications to MFRS 15	1 January 2018
MFRS 9: Financial Instruments	1 January 2018
Amendments to MFRS 2: Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to MFRS 4: Applying MFRS 9: Financial Instruments with MFRS 4: Insurance Contracts	1 January 2018
Amendments to MFRS 140: Transfers of Investment Property	1 January 2018
IC Interpretation 22: Foreign Currency Transactions and Advance Consideration	1 January 2018
Annual Improvements to MFRSs 2015 - 2017 Cycle (Amendments to MFRS 3, MFRS 11, MFRS 112 and MFRS 123)	1 January 2019
MFRS 16: Leases	1 January 2019
IC Interpretation 23: Uncertainty over Income Tax Treatments	1 January 2019
Amendments to MFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to MFRS 128: Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to MFRS 119: Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to MFRS 2: Share-based payment	1 January 2020
Amendments to MFRS 3: Business combinations	1 January 2020
Amendments to MFRS 6: Exploration for and evaluation of mineral resources	1 January 2020
Amendments to MFRS 14: Regulatory Deferral Accounts	1 January 2020
Amendments to MFRS 101: Presentation of financial statements	1 January 2020
Amendments to MFRS 108: Accounting policies, changes in accounting estimates and errors	1 January 2020
Amendments to MFRS 134: Interim Financial Reporting	1 January 2020
Amendments to MFRS 137: Provisions, contingent liabilities and contingent assets	1 January 2020
Amendments to MFRS 138: Intangible assets	1 January 2020

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

2. Summary of significant accounting policies (contd.)

2.3 Standards Issued but not yet effective (contd.)

Description	Effective for annual periods beginning on or after
Amendments to IC Interpretation 12 Service Concession Arrangements	1 January 2020
Amendments to IC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 January 2020
Amendments to IC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2020
Amendments to IC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2020
Amendments to IC Interpretation 132 Intangible Assets - Web Site Costs	1 January 2021
MFRS 17: Insurance Contracts	1 January 2021
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The Directors expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application except as discussed below:

MFRS 9 Financial Instruments

In November 2014, MASB issued the final version of MFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces MFRS 139 Financial Instruments: Recognition and Measurement and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

The Group is in the process of finalising the impact on the measurement of the Group's trade and other receivables. Other than the trade and other receivables, the adoption of MFRS 9 will have no other impact on the Group and the Company.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

2. Summary of significant accounting policies (contd.)

2.3 Standards issued but not yet effective (contd.)

MFRS 15 Revenue from Contracts with Customers

MFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. MFRS 15 will supersede the current revenue recognition guidance including MFRS 118 Revenue, MFRS 111 Construction Contracts and the related interpretations when it becomes effective.

The core principle of MFRS 15 is that an entity should recognise revenue which depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Under MFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method. The directors are in the process of finalising the effects of applying the new standard on the Group's financial statements and have identified the following area that will be affected.

The Group has performed a preliminary assessment of MFRS 15 which is subject to changes arising from a more detailed ongoing analysis. The Group expects the following impact upon adoption of MFRS 15.

(i) Variable consideration

Some contracts with customers provide a right of return, trade discounts, free goods, promotion rebates or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. Such provisions give rise to variable consideration under MFRS 15 and revenue is recognised to the extent that there will be no significant reversal when the uncertainty is resolved.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

2. Summary of significant accounting policies (contd.)

2.3 Standards issued but not yet effective (contd.)

MFRS 15 Revenue from Contracts with Customers (contd.)

(ii) Right of return

The Group currently recognises a provision for the net margin arising from expected returns. Under MFRS 15, an entity estimates transaction price and recognises revenue based on the amounts to which the entity expects to be entitled through the end of return period, and recognises such amount of expected returns as a refund liability, representing its obligation to return the customer's consideration.

Based on the Group's preliminary assessment, the adoption of this standard will not have a significant impact on the net profit of the Group. The Group expects that certain considerations payable to customers will be reclassified as a reduction of revenue instead of presenting such items as cost of sales and selling and distribution expenses. In addition, the Group expects a change in presentation to show refund liability separate from the asset recoverable for estimated sales returns.

MFRS 16 Leases

MFRS 16 will replace MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Lease-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-statements of financial position model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset and to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group is currently assessing the impact of MFRS 16 and plans to adopt the new standard on the required effective date.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

2. Summary of significant accounting policies (contd.)

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and of the Company and its subsidiaries as at the reporting date. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Group. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Company controls an investee if and only if the Company has all the following:

- (i) power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) exposure, or rights, to variable returns from its investment with the investee; and
- (iii) the ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting rights of an investee, the Company considers the following in assessing whether or not the Company's voting rights in an investee are sufficient to give it power over the investee:

- (i) the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- (ii) potential voting rights held by the Company, other vote holders or other parties;
- (iii) rights arising from other contractual arrangements; and
- (iv) any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Subsidiaries are consolidated when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. The resulting difference is recognised directly in equity and attributed to owners of the Company.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

2. Summary of significant accounting policies (contd.)

2.4 Basis of consolidation (contd.)

When the Group loses control of a subsidiary, a gain or loss calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interest, is recognised in profit or loss. The subsidiary's cumulative gain or loss which has been recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss or where applicable, transferred directly to retained earnings. The fair value of any investment retained in the former subsidiary at the date control is lost is regarded as the cost on initial recognition of the investment.

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The Group elects on a transaction-by-transaction basis whether to measure the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with MFRS 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of MFRS 139, it is measured in accordance with the appropriate MFRS.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. The accounting policy for goodwill is set out in Note 2.7.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

2. Summary of significant accounting policies (contd.)

2.5 Subsidiaries

A subsidiary is an entity over which the Company has all the following:

- (i) power over the investee (i.e existing rights that give it the current ability to direct the relevant activities of the investee);
- (ii) exposure, or rights, to variable returns from its investment with the investee; and
- (iii) the ability to use its power over the investee to affect its returns.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less any accumulated impairment losses. On disposal of such investments, the difference between net disposal proceeds and their carrying amounts is included in profit or loss.

2.6 Transaction with non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in profit or loss of the Group and within equity in the consolidated statements of financial position, separately from parent shareholders' equity. Transactions with non-controlling interests are accounted for using the entity concept method, whereby, transactions with non-controlling interests are accounted for as transactions with owners. On acquisition of non-controlling interests, the difference between the consideration and book value of the share of the net assets acquired is recognised directly in equity. Gain or loss on disposal to non-controlling interests is recognised directly in equity.

2.7 Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent period.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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2. Summary of significant accounting policies (contd.)

2.7 Goodwill (contd.)

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2006 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.19.

Goodwill and fair value adjustments which arose on acquisition of foreign operation before 1 January 2006 are deemed to be assets and liabilities of the Company and are recorded in RM at the rates prevailing at the date of acquisition.

2.8 Property, plant and equipment and depreciation

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

Subsequent to initial recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of property, plant and equipment is provided for on a straight-line basis to write-off the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Furniture, fittings and office equipment	10%
Machinery	10%
Computer equipment	33%
Motor vehicles	20%
Renovation and electrical installation	10%
Godown equipment	10%

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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2. Summary of significant accounting policies (contd.)

2.8 Property, plant and equipment and depreciation (contd.)

Capital work-in progress are not depreciated as these assets are not available for use. The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any and the net carrying amount is recognised in profit or loss.

2.9 Impairment of non-financial assets

The Group and the Company assess at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when an annual impairment assessment for an asset is required, the Group and the Company make an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss.

An assessment is made at each reporting date as whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in a subsequent period.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

2. Summary of significant accounting policies (contd.)

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is determined on a weighted average basis. Cost of finished goods includes direct materials, direct labour, other direct costs and appropriate production overheads.

Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

2.11 Financial assets

Financial assets are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Group and the Company determine the classification of their financial assets at initial recognition. Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. All financial assets of the Group and the Company are classified as loans and receivables.

Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables are classified as current assets, except for those having maturity dates later than 12 months after the reporting date which are classified as non-current.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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2. Summary of significant accounting policies (contd.)

2.12 Impairment of financial assets

The Group and the Company assess at each reporting date whether there is any objective evidence that a financial asset is impaired.

Receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis based on similar risk characteristics. Objective evidence of impairment for a portfolio of receivables could include the Group's and the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable becomes uncollectible, it is written off against the allowance account.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits, and short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Group's and of the Company's cash management.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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2. Summary of significant accounting policies (contd.)

2.14 Financial liabilities

Financial liabilities, within the scope of MFRS 139, are recognised in the statements of financial position when, and only when, the Group and the Company become a party to the contractual provisions of the financial instrument. Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. The Group and the Company have not designated any financial liabilities as at fair value through profit or loss.

Other financial liabilities

The Group and the Company's other financial liabilities include payables.

Payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

For other financial liabilities, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.15 Income taxes

(i) Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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2. Summary of significant accounting policies (contd.)

2.15 Income taxes (contd.)

(ii) Deferred tax (contd.)

Deferred tax liabilities are recognised for all temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(iii) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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2. Summary of significant accounting policies (contd.)

2.16 Provisions for liabilities

Provisions are recognised when the Group and the Company have a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as finance cost.

2.17 Share capital

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Ordinary shares are equity instruments. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

2.18 Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group and the Company pay fixed contributions into separate entities or funds and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. Such contributions are recognised as an expense in profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employees Provident Fund ("EPF").

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Auric Pacific (M) Sdn. Bhd.
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2. Summary of significant accounting policies (contd.)

2.19 Foreign currencies

(i) Functional and presentation currency

The financial statements of the Group and of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia ("RM"), which is also the Company's functional currency.

In preparing the financial statements of the entity, transactions in currencies other than the entity's functional currency are recorded in the functional currency using the exchange rates prevailing at the dates of the transactions.

At each reporting date, monetary items denominated in foreign currencies are translated at the rates prevailing on the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

(ii) Foreign currency transactions

Exchange differences arising on the settlement of monetary items, and on the translating of monetary items, are included in profit or loss for the period.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

2.20 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised net of Goods and Services Tax and upon transfer of significant risks and rewards of ownership to the buyer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

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Auric Pacific (M) Sdn. Bhd.
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2. Summary of significant accounting policies (contd.)

2.20 Revenue recognition (contd.)

(ii) Interest income

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

2.21 Operating leases - the Group as lessee

Operating lease payments are recognised as an expense in the profit or loss on a straight line basis over the term of the relevant lease.

2.22 Current versus non-current classification

The Group and the Company present assets and liabilities in the statement of financial position based on current/non-current classification.

An asset is classified as current when it is:

- expected to be realised or intended to be sold or consumed in normal operating cycle
- held primarily for the purpose of trading
- expected to be realised within twelve months after the reporting period, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- it is expected to be settled in normal operating cycle
- it is held primarily for the purpose of trading
- it is due to be settled within twelve months after the reporting period, or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group and the Company classify all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

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Auric Pacific (M) Sdn. Bhd.
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2. Summary of significant accounting policies (contd.)

2.23 Fair value measurement

The Group and the Company measure financial instruments and non-financial assets such as investment properties, at fair value at each reporting date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Group and the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset 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.

The Group and the Company use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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2. Summary of significant accounting policies (contd.)

2.23 Fair value measurement (contd.)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group and the Company have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.24 Related parties

A related party is defined as follows:

- a) a person or a close member of that person's family is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- b) an entity is related to the Company if any of the following conditions applies:
 - (i) if the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); or
 - (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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2. Summary of significant accounting policies (contd.)

2.25 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group and of the Company.

Contingent liabilities and assets are not recognised in the statements of financial position of the Group and of the Company.

2.26 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognised amounts; and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3. Significant accounting judgements and estimates

In the preparation of the financial statements, management was required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the financial statements in the period in which the estimates are revised and in any future periods affected.

3.1 Judgements made in applying accounting policies

There are no critical judgements made by management in the application of accounting policies of the Group and of the Company that have a significant effect on the financial statements.

3.2 Key sources of estimation uncertainty

There are no critical judgements made by management in the application of accounting policies of the Group and of the Company that have a significant effect on the financial statements.

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4. Revenue

Revenue represents the invoiced value of goods sold net of discounts and allowances.

5. Other operating income

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Interest income	1,318,200	1,159,595	-	-
Other income	399,568	61,020	-	-
Management fees received from a related company	55,504	91,247	-	-
Recharge of IT expenses to a related company	76,648	55,320	-	-
Gain/(Loss) on disposal on property, plant and equipment	15,160	(35,241)	-	-
Unrealised forex exchange gain	797,077	-	191,715	-
	<u>2,662,157</u>	<u>1,331,941</u>	<u>191,715</u>	<u>-</u>

6. Finance costs

	Group	
	2017	2016
	RM	RM
Interest on bankers' acceptances	368,767	106,580
	<u>368,767</u>	<u>106,580</u>

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7. Profit/(Loss) before tax

The following amounts have been included in arriving at profit/(loss) before tax

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Employee benefits expense (Note 24)	12,771,666	12,453,191	-	-
Auditors' remuneration				
- Current year	157,496	151,000	34,000	34,000
- (Over)/underprovision in prior year	(4,000)	40,519	(4,000)	12,837
Depreciation of property, plant and equipment (Note 9)	651,530	1,163,826	-	-
Net foreign exchange loss/(gain):				
- Realised	(137,155)	1,715,026	-	(205,518)
- Unrealised	(797,077)	346,100	(191,715)	343,329
Write off of investment	-	-	2	-
(Gain)/Loss on disposal of property, plant and equipment	(15,160)	35,241	-	-
Bad debts recovered	(29,328)	(287,839)	-	(26,477)
Impairment loss on receivables, net of recoveries (Note 14)	746,136	1,385,228	-	-
Writedown of slow moving inventories	2,902,338	4,871,198	-	-
Net warehousing management fees	14,054,290	13,156,325	-	-
Management fees paid to immediate holding company	1,863,517	1,642,794	-	-
Management fees receivable from a related company	(55,504)	(91,247)	-	-
Recharge of IT expenses to a related company	(76,648)	(55,320)	-	-
Rental expenses	1,260,208	1,210,426	-	-
General advertisements and promotions	16,101,513	17,295,738	-	-
Royalties	3,154,836	1,664,327	-	-

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8. Income tax expense

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Current income tax:				
Malaysian income tax	6,644,587	7,524,643	-	-
Under/(Over)provision in prior years:				
Malaysian income tax	1,995,492	(39,627)	35,817	-
	<u>8,640,079</u>	<u>7,485,016</u>	<u>35,817</u>	<u>-</u>
Deferred tax (Note 12):				
Relating to origination and reversal of temporary differences	(81,998)	(147,462)	-	-
Effect of changes in Malaysian income tax rate	-	-	-	-
(Over)/Underprovision in prior year	(1,927,996)	1,763,666	-	343,097
	<u>(2,009,994)</u>	<u>1,616,204</u>	<u>-</u>	<u>343,097</u>
Total income tax expense	<u>6,630,085</u>	<u>9,101,220</u>	<u>35,817</u>	<u>343,097</u>

Domestic current income tax is calculated at the Malaysian statutory tax rate at 24% (2016: 24%) of the estimated assessable profit for the year.

A reconciliation of income tax expense applicable to profit/(loss) before tax at the statutory income tax rate to income tax expense at the effective income tax rate of the Group and of the Company is as follows:

	2017	2016
	RM	RM
Group		
Profit before tax	<u>27,181,301</u>	<u>29,847,810</u>
Taxation at Malaysian statutory tax rate of 24% (2016: 24%)	6,523,512	7,163,474
Effect of expenses not deductible for tax purposes	79,535	203,755
Effect of income not subject to tax	(41,278)	-
Deferred tax assets not recognised	820	9,952
Under/(Over)provision of income tax expense in prior years	1,995,492	(39,627)
(Over)/Underprovision of deferred tax in prior years	(1,927,996)	1,763,666
Income tax expense for the year	<u>6,630,085</u>	<u>9,101,220</u>

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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8. Income tax expense (contd.)

	2017 RM	2016 RM
Company		
Profit/(Loss) before tax	142,664	(151,335)
Taxation at Malaysian statutory rate of 24% (2016: 24%)	34,239	(36,320)
Effect of income not subject to tax	(34,239)	-
Effect of expenses not deductible for tax purposes	-	36,320
Underprovision of income tax expense in prior year	35,817	-
Underprovision of deferred tax in prior years	-	343,097
Income tax expense for the year	35,817	343,097

Deferred tax asset has not been recognised in respect of the following item:

	Group	
	2017 RM	2016 RM
Unutilised tax losses	12,651	9,236

Deferred tax asset has not been recognised in respect of the above item as it is not probable that future taxable income will be available against which it may be utilised.

The unutilised tax losses of a subsidiary are available for offsetting against future taxable profits subject to no substantial change in shareholdings under the Income Tax Act, 1967 and guidelines issued by the tax authority.

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9. Plant and equipment

Group	Furniture, fittings and office equipment RM	Machinery RM	Computer equipment RM	Motor vehicles RM	Renovation and electrical installation RM	Total RM
2017						
Cost						
At 1 January 2017	3,062,084	3,587,102	2,486,174	690,835	341,095	10,167,290
Additions	52,073	855,314	88,600	-	-	995,987
Reclassification	(8,989)	-	8,989	-	-	-
Write off	(123,449)	(304,806)	-	(124,200)	-	(552,455)
At 31 December 2017	2,981,719	4,137,610	2,583,763	566,635	341,095	10,610,822
Accumulated depreciation						
At 1 January 2017	2,358,621	2,614,339	2,352,418	228,773	324,343	7,878,494
Depreciation charge for the year	174,326	218,076	119,455	128,457	11,216	651,530
Write off	(123,449)	(304,800)	-	(26,910)	-	(455,159)
At 31 December 2017	2,409,498	2,527,615	2,471,873	330,320	335,559	8,074,865
Net carrying amount						
At 31 December 2017	572,221	1,609,995	111,890	236,315	5,536	2,535,957

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9. Plant and equipment (contd.)

Group	Furniture, fittings and office equipment RM	Machinery RM	Computer equipment RM	Motor vehicles RM	Renovation and electrical installation RM	Total RM
2016						
Cost						
At 1 January 2016	2,796,867	3,523,852	2,806,886	616,948	183,315	9,927,868
Additions	276,534	63,250	25,130	248,401	157,780	771,095
Write off	(11,317)	-	(345,842)	(174,514)	-	(531,673)
At 31 December 2016	3,062,084	3,587,102	2,486,174	690,835	341,095	10,167,290
Accumulated depreciation						
At 1 January 2016	1,997,774	2,415,464	2,298,635	301,736	166,170	7,179,779
Depreciation charge for the year	372,163	198,875	333,068	101,547	158,173	1,163,826
Write off	(11,316)	-	(279,285)	(174,510)	-	(465,111)
At 31 December 2016	2,358,621	2,614,339	2,352,418	228,773	324,343	7,878,494
Net carrying amount						
At 31 December 2016	703,463	972,763	133,756	462,062	16,752	2,288,796

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10. Investments in subsidiaries

	Company	
	2017	2016
	RM	RM
Unquoted shares, at cost	<u>23,529,514</u>	<u>23,529,516</u>

Details of the subsidiaries are as follows:

Names of subsidiaries	Country of incorporation	Equity Interest held (%)		Principal activities
		2017	2016	
Auric Marketing Sdn Bhd (formerly known as Auric Chun Yip Sdn. Bhd.)	Malaysia	100	100	Supply of bakery, confectionery and dairy products
Auric Pacific Food Processing Sdn. Bhd.	Malaysia	100	100	Manufacturer of and dealer in butter and margarine and related confectionery products
Confidence Driven Sdn. Bhd.	Malaysia	-	100	Struck off during the year
Auric Pacific Bakeries Sdn. Bhd. ^ #	Malaysia	100	100	Dormant
Classic Aspire Sdn. Bhd. ^ #	Malaysia	60	60	Investment holding company

^ These subsidiaries are in the process of members' voluntary liquidation.

The financial statements of the subsidiaries have been prepared on a basis other than going concern.

During the year, the Company has written off its investment in a subsidiary where the impairment loss has been fully recognised amounting to RM2 as the subsidiary has been struck off from the register of the Companies Commission of Malaysia.

Summarised financial information of Classic Aspire Sdn. Bhd. which has non-controlling interest that is material to the Group is disclosed in Note 32.

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11. Goodwill on consolidation

	Group	
	2017	2016
	RM	RM
At carrying value:		
At 1 January and 31 December	6,054,924	6,054,924

The carrying value of goodwill allocated to each cash generating unit ("CGU") is as follows:

	2017	2016
	RM	RM
Auric Marketing Sdn. Bhd. (formerly known as Auric Chun Yip Sdn. Bhd.)	5,590,521	5,590,521
Auric Pacific Food Processing Sdn. Bhd.	464,403	464,403
	<u>6,054,924</u>	<u>6,054,924</u>

Impairment tests for goodwill on consolidation

The recoverable amount of the CGU is based on value-in-use calculations using cash flow projections based on expected future cash flows of the units. The key assumptions used for the value in use include discount rates and growth rates. The discount rates applied are the target weighted average cost of capital of the business units and reflect specific risks relating to the relevant business activities. The discount rate applied ranged between 10% to 14% per annum. Cash flows projection is based on the most recent one-year budget approved by management. Cash flows for the second to fifth year are extrapolated using weighted average growth rate of 4%. Management has determined the budgeted gross margins and growth rates based on past performance and its expectations for market developments.

12. Deferred taxation

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
At 1 January	(1,565,428)	(3,181,632)	-	(343,097)
Recognised in profit or loss (Note 8)	(2,009,994)	1,616,204	-	343,097
At 31 December	<u>(3,575,422)</u>	<u>(1,565,428)</u>	<u>-</u>	<u>-</u>

Presented after appropriate offsetting as follows:

Deferred tax assets	(3,575,422)	(1,565,428)	-	-
	<u>(3,575,422)</u>	<u>(1,565,428)</u>	<u>-</u>	<u>-</u>

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12. Deferred taxation (contd.)

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax assets of the Group

	Plant and equipment RM	Provisions RM	Total RM
At 1 January 2017	159,937	(1,725,365)	(1,565,428)
Recognised in profit or loss	(28,680)	(1,981,314)	(2,009,994)
At 31 December 2017	<u>131,257</u>	<u>(3,706,679)</u>	<u>(3,575,422)</u>
At 1 January 2016	193,756	(3,375,388)	(3,181,632)
Recognised in profit or loss	(33,819)	1,650,023	1,616,204
At 31 December 2016	<u>159,937</u>	<u>(1,725,365)</u>	<u>(1,565,428)</u>

Deferred tax assets of the Company

	Other payables RM	Total RM
At 1 January 2017	-	-
Recognised in profit or loss	-	-
At 31 December 2017	<u>-</u>	<u>-</u>
At 1 January 2016	(343,097)	(343,097)
Recognised in profit or loss	343,097	343,097
At 31 December 2016	<u>-</u>	<u>-</u>

13. Inventories

	Group	
	2017 RM	2016 RM
At cost:		
Raw materials	5,937,000	4,837,095
Finished goods	45,903,525	28,582,507
Goods in transit - Finished goods	15,791,189	11,869,020
At NRV:		
Finished goods	188,138	859,967
	<u>67,819,852</u>	<u>46,148,589</u>

The cost of inventories recognised as an expense during the year amounted to RM200,986,684 (2016: RM173,061,496)

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14. Trade receivables

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Third parties	65,212,873	63,977,046	-	-
Related companies	1,842,021	766,262	-	-
Subsidiaries	-	-	-	24,973,158
	<u>67,054,894</u>	<u>64,743,308</u>	<u>-</u>	<u>24,973,158</u>
Less: Allowance for impairment	(2,869,295)	(3,960,379)	-	-
	<u>64,185,599</u>	<u>60,782,929</u>	<u>-</u>	<u>24,973,158</u>

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Trade receivables	64,185,599	60,782,929	-	24,973,158
Other receivables (Note 15)	<u>3,823,826</u>	<u>3,029,133</u>	<u>856,086</u>	<u>31,471,277</u>
	68,009,425	63,812,062	856,086	56,444,435
Add: Cash and bank balances (Note 17)	15,197,806	65,670,384	111,321	185,387
Less: Dividends receivable from subsidiaries (Note 15)	-	-	-	(30,564,000)
Goods and Services Tax receivable	<u>(563,354)</u>	<u>(527,506)</u>	<u>-</u>	<u>-</u>
Total loans and receivables	<u>82,643,877</u>	<u>128,954,940</u>	<u>967,407</u>	<u>26,065,822</u>

Trade receivables are non-interest bearing and are generally on credit terms of 30 to 90 days (2016: 30 to 90 days). They are recognised at their initial original amounts which represent their fair values on initial recognition. These receivables are unsecured.

Related companies refer to the companies within the Lippo Capital Group Limited group of companies.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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14. Trade receivables (contd.)

The ageing analyses of the Group's and of the Company's trade receivables is as follows:

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Neither past due nor impaired	51,024,896	49,483,541	-	-
1 to 30 days past due but not impaired	9,154,673	8,515,736	-	-
31 to 60 days past due but not impaired	1,763,767	1,387,888	-	-
61 to 90 days past due but not impaired	1,006,796	382,324	-	-
91 days and above due but not impaired	1,235,467	1,013,441	-	24,973,158
	64,185,599	60,782,929	-	24,973,158
Impaired	2,869,295	3,960,379	-	-
	67,054,894	64,743,308	-	24,973,158

Receivables that are neither past due nor impaired

Trade receivables that are neither past due nor impaired are credit worthy debtors with good payment records.

Receivables that are past due but not impaired

Trade receivables that are past due but not impaired are unsecured.

Trade receivables that are impaired

	Individually impaired	
Group	2017	2016
	RM	RM
Trade receivables	2,869,295	3,960,379
Allowance for impairment	(2,869,295)	(3,960,379)
	-	-
Movements in allowance account:		
At 1 January	3,960,379	4,054,633
Charge for the financial year	746,136	1,385,228
Utilisation of allowance	(1,837,220)	(1,479,482)
At 31 December	2,869,295	3,960,379

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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15. Other receivables

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Other receivables	826,939	556,743	-	-
Deposits	975,442	843,201	-	-
Amounts due from immediate holding company	1,314,344	858,547	853,339	858,547
Amounts due from subsidiaries	-	-	2,747	48,730
Amounts due from related companies	707,101	759,878	-	-
Dividends receivable from subsidiaries	-	-	-	30,564,000
Sundry debtors	-	10,764	-	-
	<u>3,823,826</u>	<u>3,029,133</u>	<u>856,086</u>	<u>31,471,277</u>

The amounts due from immediate holding company, subsidiaries and related companies are unsecured, interest-free and repayable on demand.

Related companies refer to the companies within the Lippo Capital Group Limited group of companies.

Included in other receivables of the Group is Goods and Services Tax receivable amounting to RM563,354 (2016: RM527,506)

16. Other current assets

	Group	
	2017	2016
	RM	RM
Trademark license	1,050	1,050
Prepayments	117,901	99,865
	<u>118,951</u>	<u>100,915</u>

17. Cash and bank balances

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Cash on hand and at bank	15,197,806	65,670,384	111,321	185,387
	<u>15,197,806</u>	<u>65,670,384</u>	<u>111,321</u>	<u>185,387</u>

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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18. Trade payables

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Trade payables	41,459,712	30,802,193	-	-
Due to subsidiaries	-	-	2,325,290	2,325,290
Due to related companies	911,436	668,086	-	-
	<u>42,371,148</u>	<u>31,470,279</u>	<u>2,325,290</u>	<u>2,325,290</u>

The normal trade credit terms granted to the Group and the Company range from 30 to 90 days (2016: 30 to 90 days).

Related companies refer to the companies within the Lippo Capital Group Limited group of companies.

19. Other payables

	Group		Company	
	2017	2016	2017	2016
	RM	RM	RM	RM
Due to immediate holding company	24,764,738	80,053,373	7,984,843	66,471,619
Due to subsidiaries	-	-	6,763,542	3,972,624
Due to related companies	4,396,923	4,607,098	3,182,666	3,241,813
Other creditors	550,124	425,234	110,743	110,000
Accruals	20,136,588	19,537,594	53,668	68,670
	<u>49,848,373</u>	<u>104,623,299</u>	<u>18,095,462</u>	<u>73,864,726</u>
Trade payables (Note 18)	42,371,148	31,470,279	2,325,290	2,325,290
Borrowings-unsecured (Note 20)	13,093,000	7,154,000	-	-
Loan from intermediate holding company	-	428,875	-	-
Less: Goods and Services Tax payable	(42)	(379,333)	(42)	(40)
Total financial liabilities carried at amortised cost	<u>105,312,479</u>	<u>143,297,120</u>	<u>20,420,710</u>	<u>76,189,976</u>

The amounts due to immediate holding company, subsidiaries and related companies are unsecured, interest-free and repayable on demand. Related companies refer to the companies within the Lippo Capital Group Limited group of companies.

Included in accruals is Goods and Services Tax payable amounting to RM42 (2016: RM379,333) of the Group and RM42 (2016: RM40) of the Company respectively.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

20. Borrowings- unsecured

	Group	
	2017	2016
	RM	RM
Bankers' acceptances	13,093,000	7,154,000

The effective interest rate and remaining maturity of the bankers' acceptances range from 3.8% to 4.14% (2016: 3.8% to 3.95%) per annum and 10 to 117 days (2016: 6 to 48 days) respectively.

21. Share capital

	Number of ordinary shares		Amount	
	2017	2016	2017	2016
			RM	RM
Issued and fully paid:				
At 1 January /				
31 December	1,000,000	1,000,000	1,000,000	1,000,000

The new Companies Act 2016 which came into operation on 31 January 2017, abolished the concept of authorised share capital and par value of share capital.

The holder of ordinary shares is entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Company's residual assets.

22. Retained earnings

The Company may distribute dividends out of its entire retained earnings as at 31 December 2017 and 31 December 2016 under the single tier system.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
(Incorporated in Malaysia)

23. Commitments

(a) Capital commitments

	Group	
	2017	2016
	RM	RM
Approved and contracted for:		
Property, plant and equipment	245,000	-

(b) Operating lease commitments

	Group	
	2017	2016
	RM	RM
Non-cancellable operating lease commitments		
Future minimum rentals payable:		
Not later than 1 year	1,123,216	519,575
Later than 1 year and not later than 5 years	2,383,593	137,500
	<u>3,506,809</u>	<u>657,075</u>

Operating lease payments represent rentals payable by the Group for use of office, factory and staff accommodation.

24. Employee benefits expense

	Group	
	2017	2016
	RM	RM
Salaries and wages	9,235,152	8,723,889
Employees Provident Fund and social security costs	1,719,847	1,709,037
Other staff related expenses	1,816,667	2,020,265
	<u>12,771,666</u>	<u>12,453,191</u>

25. Directors' remuneration

	Group	
	2017	2016
	RM	RM
Executive:		
Salaries and wages	1,030,095	669,726
EPF and social security costs	119,318	81,104
	<u>1,149,413</u>	<u>750,831</u>
Non-executive:		
Other emoluments	24,000	72,000
Total directors' remuneration	<u>1,173,413</u>	<u>822,831</u>

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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26. Related party transactions

In addition to the transactions detailed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the financial year:

(a) Sales and purchase of goods and services

	Group	
	2017	2016
	RM	RM
Sales to related companies	4,659,157	2,872,575
Purchases from related companies	1,258,783	37,710,098
Royalties payable to immediate holding company	3,154,836	1,664,327
Management fees paid to immediate holding company	1,863,517	1,642,794
Management fees receivable from a related company	(55,504)	(91,247)
Recharge of IT expenses to a related company	(76,648)	(55,320)
Advance made to intermediate holding company	4,000,000	-
Waiver of advance to immediate holding company	(4,000,000)	-
Repayment of loan to immediate holding company	428,875	-
Dividend paid to immediate holding company	58,349,000	-
Recovery of bad debts from related companies	-	(285,460)
Purchase of property, plant and machinery from a related company	-	261,648
	Company	
	2017	2016
	RM	RM
Dividend paid to immediate holding company	58,349,000	-
Dividend received from subsidiaries	(30,564,000)	-
Recovery of bad debts from a related company	-	(26,477)

Related companies refer to the companies within the Lippo Capital Group Limited group of companies.

(b) Compensation of key management personnel

	Group	
	2017	2016
	RM	RM
Short term employee benefits	1,914,521	1,240,459
Defined contribution plans	225,944	154,610
	<u>2,140,465</u>	<u>1,395,069</u>

Included in the remuneration of total key management personnel are directors' remuneration amounting to RM1,149,413 (2016: RM750,831) as disclosed in Note 25.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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27. Fair value of financial instruments

The carrying amounts of the financial assets and liabilities of the Group and of the Company approximate their fair values due to their short-term nature. The fair values of the financial liabilities in non-current liabilities are estimated based on the discounted future cash flows at market incremental lending rate. The carrying values of these liabilities are reasonable approximation of their fair values.

28. Financial risk management objectives and policies

(a) Financial risk management objectives and policies

Financial management

The Group's and the Company's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's and of the Company's businesses whilst managing their interest rate (both fair value and cash flow risk), foreign exchange risk, liquidity risk and credit risk. The Group and the Company operate within clearly defined guidelines that are approved by the Board and do not engage in speculative transactions.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their loans and borrowings, cash and cash equivalents.

The Group's policy is to minimise their interest exposure through the borrowing of short term loans and continuous negotiations with the lenders to derive favourable terms which are mutually agreeable.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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28. Financial risk management objectives and policies (contd.)

Sensitivity analysis for interest rate risk

Movements in interest rates will have an impact on the Group's borrowings. A change of 50 basis points (bp) in interest rates at the reporting date would change profit net of tax by the amounts shown below. This analysis assumes that all other variables remain constant.

Group	Profit before tax	
	Increase/(decrease)	
	50 bp Increase RM	50 bp Decrease RM
2017		
Borrowings- unsecured	(49,753)	49,753
2016		
Borrowings- unsecured	(27,185)	27,185

Information relating to the Group's interest exposure is also disclosed in various notes to the financial statements.

(c) Foreign exchange risks

The Group and the Company transact in and are thus exposed to various currencies, mainly United States Dollars ("USD"), Singapore Dollars ("SGD"), Euro Dollar ("EUR"), New Zealand Dollars ("NZD") and Australian Dollars ("AUD"). Foreign currency denominated assets and liabilities together with expected cash flows from highly probable purchases and sales give rise to foreign exchange exposures.

The Group and the Company have not entered into any foreign currency hedges or derivative instruments to manage their exposure to foreign currency exchange movements as at 31 December 2017 and 31 December 2016.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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30. Financial risk management objectives and policies (contd.)

(c) Foreign exchange risks (contd.)

Sensitivity analysis for foreign currency risks

The following table demonstrates the sensitivity of the Group's and of the Company's profit before tax to a reasonable change in the exchange rates of USD, SGD, EURO, NZD and AUD against functional the currency of the Group entities and the Company, with all variables held constant.

Group	Profit/(loss) before tax	
	Increase/ (decrease) in profit	Increase/ (decrease) in profit
	2017 RM	2016 RM
USD	- strengthened 6%	(1,363,601)
	- weakened 6%	1,363,601
SGD	- strengthened 6%	(1,661,876)
	- weakened 6%	1,661,876
EURO	- strengthened 6%	(42,201)
	- weakened 6%	42,201
NZD	- strengthened 6%	(20)
	- weakened 6%	20
AUD	- strengthened 6%	(455,266)
	- weakened 6%	455,266
Company		
SGD	- strengthened 6%	(618,968)
	- weakened 6%	618,968

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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30. Financial risk management objectives and policies (contd.)

(d) Liquidity risks

Liquidity risks are the risks that the Group and the Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group and the Company actively manage their debt maturity profile, operating cash flows and the availability of funding so as to ensure that all refinancing, repayment and funding needs are met. As part of its overall prudent liquidity management, the Group and the Company maintain sufficient levels of cash to meet their working capital requirements.

The Company also manages its liquidity risk by obtaining financial support from the immediate holding company, Auric Pacific Group Limited to ensure, as far as possible it can meet all its obligations and outstanding liabilities as and when they fall due.

The table below summarises the maturity profile of the Group's and of the Company's liabilities at the reporting date based on contracted undiscounted repayment obligations.

Group	On demand or within one year RM	One to five years RM	Total RM
2017			
Financial liabilities			
Trade payables	41,459,712	-	41,459,712
Due to immediate holding company	24,764,738	-	24,764,738
Due to related companies	5,308,359	-	5,308,359
Other creditors	550,124	-	550,124
Accruals	20,136,546	-	20,136,546
Borrowings- unsecured	13,093,000	-	13,093,000
Total undiscounted financial liabilities	<u>105,312,479</u>	<u>-</u>	<u>105,312,479</u>
2016			
Financial liabilities			
Trade payables	30,802,193	-	30,802,193
Due to immediate holding company	80,053,373	-	80,053,373
Due to related companies	5,275,184	-	5,275,184
Other creditors	425,234	-	425,234
Accruals	19,158,261	-	19,158,261
Borrowings- unsecured	7,154,000	-	7,154,000
Loan from immediate holding company	428,875	-	428,875
Total undiscounted financial liabilities	<u>143,297,120</u>	<u>-</u>	<u>143,297,120</u>

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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30. Financial risk management objectives and policies (contd.)

(d) Liquidity risks (contd.)

Company	On demand or within one year RM	One to five years RM	Total RM
2017			
Financial liabilities			
Trade payables	2,325,290	-	2,325,290
Due to immediate holding company	7,984,843	-	7,984,843
Due to subsidiaries	6,763,542	-	6,763,542
Due to related companies	3,182,666	-	3,182,666
Other creditors	110,743	-	110,743
Accruals	53,626	-	53,626
Total undiscounted financial liabilities	<u>20,420,710</u>	<u>-</u>	<u>20,420,710</u>
2016			
Financial liabilities			
Trade payables	2,325,290	-	2,325,290
Due to immediate holding company	66,471,619	-	66,471,619
Due to subsidiaries	3,972,624	-	3,972,624
Due to related companies	3,241,813	-	3,241,813
Other creditors	110,000	-	110,000
Accruals	68,630	-	68,630
Total undiscounted financial liabilities	<u>76,189,976</u>	<u>-</u>	<u>76,189,976</u>

(e) Credit risks

Credit risks, or the risks of counterparties defaulting, are minimised and monitored via strictly limiting the Group's and the Company's associations to business partners with high creditworthiness. Trade receivables are monitored on an ongoing basis via the Group's and the Company's management reporting procedures.

The Group and the Company do not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risks related to any financial instruments.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

17634-V

Auric Pacific (M) Sdn. Bhd.
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31. Capital management

The main objective of the Group's capital management is to ensure that they maintain a healthy capital structure from various sources of funds to finance their overall operations, support business growth and maximise shareholder value.

While debt financing provides more flexibility in arrangement, the Group monitors the volatility of interest rates on the variability of earnings before taxation. Hence, the Group has a sufficient income stream maintained to service all contractual obligations arising from debt financing and dividend payments to shareholders.

Interest coverage is calculated by dividing profit before tax by finance costs.

The interest coverage for the Group was 73.71 in 2017 as compared to 280.05 in 2016 respectively. No changes were made in the objectives, policies or processes during the financial years ended 31 December 2017 and 2016.

	Group	
	2017	2016
	RM	RM
Profit before tax	27,181,301	29,847,810
Finance costs	368,767	106,580
Interest coverage	<u>73.71</u>	<u>280.05</u>

The Group monitors capital using a debt-equity ratio, which is calculated by dividing its total loans and borrowings by total shareholders' equity. Total shareholders' equity includes equity attributable to the owner of the Company.

	Group	
	2017	2016
	RM	RM
Borrowings- unsecured	13,093,000	7,154,000
Loan from immediate holding company	-	428,875
	<u>13,093,000</u>	<u>7,582,875</u>
Equity attributable to the owner of the Company	61,228,427	40,668,330
Gearing ratio	<u>0.21</u>	<u>0.19</u>

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF APMSB FOR THE FYE DECEMBER 31, 2017 (CONT'D)

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Auric Pacific (M) Sdn. Bhd.
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32. Summarised financial information

Summarised financial information of Classic Aspire Sdn. Bhd. ("Classic Aspire"), a material subsidiary is set out below. The summarised financial information represents the amounts in the MFRS financial statements of the subsidiary and not the Group's share of those amounts.

Summarised statement of financial position

	Classic Aspire	
	2017	2016
	RM	RM
Total assets	75,634	4,725,449
	<u>75,634</u>	<u>4,725,449</u>
Total liabilities	6,000	633,613
Total equity	69,634	4,091,836
Total equity and liabilities	<u>75,634</u>	<u>4,725,449</u>

Summarised statement of comprehensive income

	Classic Aspire	
	2017	2016
	RM	RM
Loss before tax, representing total loss before tax	(4,022,202)	(20,345)
Income tax expense	-	(91)
Net loss for the year	<u>(4,022,202)</u>	<u>(20,436)</u>

DIRECTORS' REPORT ON APMSB

AURIC

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59200 Kuala Lumpur
Wilayah Persekutuan

Date: 31 January 2019

To: The Board of Directors of DKSH Holdings (Malaysia) Berhad

Dear Sirs,

On behalf of the Board of Directors ("**APMSB Board**") of Auric Pacific (M) Sdn Bhd ("**APMSB**"), I wish to report that after making due enquiries in relation to APMSB and its subsidiaries ("**APMSB Group**") during the period between December 31, 2017, being the date to which the latest audited consolidated financial statements of APMSB Group have been made up ("**APMSB Group FY17 Accounts**"), and the date hereof, being a date not earlier than 14 days before the date of this Circular, so far as the APMSB Board is aware:

- (a) in the opinion of the APMSB Board, the business of the APMSB Group has been satisfactorily maintained;
- (b) in the opinion of the APMSB Board, no circumstances have arisen since the APMSB Group FY17 Accounts which have materially adversely affected the trading or the value of the assets of the APMSB Group;
- (c) the current assets of the APMSB Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in Section 6 of Appendix I of this Circular, there are no material contingent liabilities which have arisen by reason of any guarantees or indemnities given by the APMSB Group;
- (e) there has been no default or any known event that could reasonably be expected to give rise to a default situation, in respect of payment of either interest and/or principal sums in relation to any borrowings; and
- (f) there have been no material changes in the published reserves or any unusual factors affecting the profits of the APMSB Group.

Yours faithfully,
for and behalf of the Board of
Auric Pacific (M) Sdn Bhd


Christopher Tan Yang Khoon
Director

AURIC PACIFIC (M) SDN BHD (Co No: 17634-V)
Lot 35, Jalan Delima 1/3, Subang Hi-Tech Industrial Park, Batu Tiga, 40000 Shah Alam, Selangor Darul Ehsan,
Malaysia.
Tel : 603-5163 6363 Fax: 603-5163 6399

FURTHER INFORMATION**1. DIRECTORS' RESPONSIBILITY STATEMENT**

This Circular has been seen and approved by the Board, and the Directors 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 other facts, the omission of which would make any statement herein misleading.

All information in relation to the APMSB Group and the Vendor as contained in this Circular has been obtained from information/documents provided by the respective representatives of the Vendor. The sole responsibility of the Board is limited to ensure that such information and statements have been accurately reproduced in this Circular.

2. CONSENTS AND CONFLICT OF INTEREST**2.1 Principal Adviser**

AmInvestment Bank, being the Principal Adviser for the Proposals, has given and has not subsequently withdrawn its consent to the inclusion in this Circular of its name and all reference thereto in the form and context in which it appears in this Circular.

AmInvestment Bank has given its written confirmation that as at the date of the letter, there is no situation of conflict of interests that exists or is likely to exist in relation to its role as the Principal Adviser to DKSH for the Proposed Acquisition.

2.2 Independent Adviser

FHCA, being the Independent Adviser for the Proposed Acquisition, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and the IAL, and all references thereto in the form and context in which they appear in this Circular.

FHCA has given its written confirmation that as at the date of the letter, there is no situation of conflict of interests that exists or is likely to exist in relation to its role as the Independent Adviser to DKSH for the Proposed Acquisition.

3. MATERIAL COMMITMENTS

As at the LPD, the Board is not aware of any material commitments incurred or known to be incurred by the DKSH Group which, upon becoming enforceable, may have a material impact on the financial position or business of the DKSH Group.

4. CONTINGENT LIABILITIES

As at the LPD, the Board is not aware of any material contingent liabilities incurred or known to be incurred by the DKSH Group which, upon becoming enforceable, may have a material impact on the financial position or business of the DKSH Group.

FURTHER INFORMATION

5. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of the Company at B-11-01, The Ascent, Paradigm, No.1, Jalan SS7/26A, Kelana Jaya, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia, during normal business hours (except public holidays) from the date of this Circular up to and including the date of the forthcoming EGM:

- (i) Constitution of DKSH and Constitution of APMSB;
- (ii) the SPA;
- (iii) Audited consolidated financial statements of DKSH for FYE December 31, 2016, FYE December 31, 2017 and the latest unaudited consolidated financial statements of DKSH for the FPE September 30, 2018;
- (iv) Audited consolidated financial statements of APMSB for the FYE December 31, 2016, FYE December 31, 2017 and the latest unaudited consolidated financial statements of APMSB for the FPE September 30, 2018;
- (v) The directors' report of APMSB as set out in Appendix III of this Circular; and
- (vi) The letters of consent and declarations of conflict of interests referred to in Section 2 above.



DKSH HOLDINGS (MALAYSIA) BERHAD

(Company No.: 231378-A)
(Incorporated in Malaysia)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting ("EGM") of DKSH Holdings (Malaysia) Berhad ("DKSH" or the "Company") will be held on Friday, February 22, 2019 at 10:00 a.m. at the Glenmarie Ballroom, Holiday Inn Kuala Lumpur Glenmarie, 1 Jalan Usahawan U1/8, Seksyen U1, 40250 Shah Alam, Selangor Darul Ehsan for the purpose of considering and if thought fit, passing with or without modifications, the following resolution:

ORDINARY RESOLUTION

PROPOSED ACQUISITION BY DKSH HOLDINGS (MALAYSIA) BERHAD ("DKSH") OF THE ENTIRE EQUITY INTEREST IN AURIC PACIFIC (M) SDN. BHD. ("APMSB") FROM AURIC PACIFIC GROUP LIMITED FOR AN INITIAL PURCHASE PRICE OF SGD157,674,000.

THAT, subject to all relevant approvals being obtained and the conditions precedent stipulated in the share purchase agreement dated December 21, 2018 entered into between DKSH and Auric Pacific Group Limited being fulfilled, approval be and is hereby given to the Company to acquire the entire issued share capital of APMSB for a provisional purchase price of SGD157,674,000 to be satisfied in cash which final purchase price shall be subject to adjustments in accordance with the terms therein.

AND THAT the Board of Directors of DKSH ("Board") be and is hereby authorised to sign and execute all documents, do all things and acts as may be required to give effect to the Proposed Acquisition with full power to assent to any conditions, modifications, variations and/or amendments in any manner as may be required or permitted by any relevant authorities and to deal with all matters relating thereto and to take such steps and do all acts and things in any manner as they may deem necessary or expedient to implement, finalise and give full effect to the Proposed Acquisition.

By Order of the Board

Lwee Wen Ling (MAICSA 7058065)
Andre' Chai P'o-Lieng (MAICSA 7062103)
Company Secretaries

Petaling Jaya
February 7, 2019

Notes:

1. A member of the Company entitled to attend and vote at a general meeting of the Company is entitled to appoint proxy(ies) to attend, vote and speak on such member's behalf. A proxy may but need not be a member of the Company and there shall be no restriction as to the qualification of the proxy.
2. Where a member of the Company is an exempt authorized nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) securities account ("**Omnibus Account**"), there is no limit to the number of proxies which the exempt authorized nominee may appoint in respect of each Omnibus Account it holds.
3. The instrument appointing a proxy shall:
 - (i) in the case of an individual, be signed by the appointer or by his/her attorney; and
 - (ii) in the case of a corporation, be either under its common seal or under the hand of an officer or attorney duly authorised.
4. Where a member appoints more than one (1) proxy, the appointment shall be invalid unless the member specifies the proportion of the shareholdings to be represented by each proxy in the instrument appointing the proxies.
5. The instrument appointing the proxy must be deposited at the office of the Company's Share Registrar, Tricor Investor & Issuing House Services Sdn Bhd at Unit 32-01, Level 32, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8 Jalan Kerinchi, 59200 Kuala Lumpur, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof; otherwise the instrument of proxy shall not be treated as valid and person so named shall not be entitled to vote in respect thereof. Only original copies of the duly executed form of proxy are acceptable.
6. The lodging of a form of proxy does not preclude a member from attending and voting in person at the meeting should the member subsequently decide to do so.
7. Only the Company's members whose names appear in the Record of Depositors on February 14, 2019 shall be entitled to attend the said meeting or appoint proxies to attend, vote and speak on their behalf.
8. Pursuant to Paragraph 8.29A (1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, resolution set out in the Notice will be put to vote by poll.

Proxy Form

Extraordinary General Meeting



DKSH Holdings (Malaysia) Berhad

(Company No. 231378-A)

No. of Shares held:	CDS Account No.:

I/We _____
(full name and in capital letters)

NRIC (new and old) /Passport/Company No.: _____ of _____

(full address)

being a member of **DKSH Holdings (Malaysia) Berhad**, hereby appoint _____

(full name as per NRIC and in capital letters) NRIC No. (new and old): _____

of _____
(full address)

and/or _____ NRIC No. (new and old): _____
(full name as per NRIC and in capital letters)

of _____
(full address)

or failing him/her, the Chairman of the Meeting as my/our proxy to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held on Friday, February 22, 2019 at 10:00 a.m. at the Glenmarie Ballroom, Holiday Inn Kuala Lumpur Glenmarie, 1 Jalan Usahawan U1/8, Seksyen U1, 40250 Shah Alam, Selangor Darul Ehsan or at any adjournment thereof. I/We indicate with an "X" in the spaces below how I/we wish my/our vote to be cast:

No.	Ordinary Resolution	For	Against
1.	Proposed Acquisition		

Subject to the above stated voting instruction, my/our proxy/proxies may vote or abstain from voting on any resolutions as he/she may think fit.

The proportions of my/our shareholdings to be represented by my/our proxies are as follows:

First Proxy

No. of shares: _____
Percentage: _____ %

Second Proxy

No. of shares: _____
Percentage: _____ %

Signature of Member/Common Seal (if Member is a Corporation)

Dated this _____ day of _____, 2019.



Fold this flap for sealing

Notes:

1. A member of the Company entitled to attend and vote at a general meeting of the Company is entitled to appoint proxy(ies) to attend, vote and speak on such member's behalf. A proxy may but need not be a member of the Company and there shall be no restriction as to the qualification of the proxy.
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8. Pursuant to Paragraph 8.29A (1) of the Main Market Listing Requirements of Bursa Malaysia Securities Berhad, resolution set out in the Notice will be put to vote by poll.

Then fold here

AFFIX
STAMP

The Share Registrar of
DKSH Holdings (Malaysia) Berhad (231378-A)

Tricor Investor & Issuing House Services Sdn Bhd
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3
Bangsar South, No.8 Jalan Kerinchi
59200 Kuala Lumpur
Malaysia

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