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 advisers immediately.

CN ASIA CORPORATION BHD

(Company No.: 399442-A)
(Incorporated in Malaysia under the then Companies Act, 1965)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO THE

PROPOSED REGULARISATION PLAN

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

Adviser

M&A SECURITIES SDN BHD (15017-H)
(A Wholly-Owned Subsidiary of Insas Berhad)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

The Notice convening the Extraordinary General Meeting ("EGM") of CN Asia Corporation Bhd ("CN Asia" or "Company") in respect of the Proposed Regularisation Plan to be held at Room Congress 1, Lower Ground Level, Palace of the Golden Horses, Jalan Kuda Emas, MINES Wellness City, 43300 Seri Kembangan, Selangor Darul Ehsan on Wednesday, 13 September 2017 at 10:00 a.m. or any adjournment thereof together with the Proxy Form are enclosed in this Circular.

The Form of Proxy must be completed and deposited at the Company's registered office at Lot 7907, Batu 11, Jalan Balakong, 43300 Seri Kembangan, Selangor Darul Ehsan not less than twenty-four (24) hours before the time appointed for the taking of the poll or any adjournment thereof. The lodging of the Form of Proxy will not preclude you from attending and voting in person at the meeting should you subsequently wish to do so.

Last date and time for lodging the Proxy Form	:	Tuesday, 12 September 2017 at 10:00 a.m.
Date and time of EGM	:	Wednesday, 13 September 2017 at 10:00 a.m. or any adjournment thereof

This Circular is dated 18 August 2017

DEFINITIONS

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

Act	:	Companies Act 2016, as amended from time to time including any re-enactment thereof
AGM	:	Annual general meeting
Board	:	Board of Directors of CN Asia
Bursa Securities	:	Bursa Malaysia Securities Berhad (635998-W)
Business Rationalisation Plan	:	Business rationalisation plan of CN Asia which sets out the management's plans for the following: (i) The Disposals; (ii) Cost reduction initiatives; and (iii) Business expansion plans
CAGR	:	Compounded annual growth rate
Circular	:	This circular to the shareholders of CN Asia dated 18 August 2017 in relation to the Proposed Regularisation Plan
CN Asia Group or Group	:	CN Asia and its subsidiaries, collectively
CN Asia or Company	:	CN Asia Corporation Bhd (399442-A)
CN Asia Share(s)	:	Ordinary share(s) in CN Asia
Disposals	:	Disposal by Chip Ngai Engineering Works Sdn Bhd and Douwin Sdn Bhd, both wholly-owned subsidiaries of CN Asia of 2 parcels of leasehold land held under H.S.(M)20480 (PT No. 17040) and H.S.(M)20479 (PT No. 17041), Tempat Jalan Balakong, Serdang, Mukim and District of Petaling, State of Selangor together with buildings and amenities erected thereon to LTK Properties Sdn Bhd, for a total cash consideration of RM36,682,500. The Disposals have been completed on 7 December 2016
EGM	:	Extraordinary general meeting
EPS	:	Earnings per share
FPE	:	Financial period ended/ending 31 March, as the case may be
FYE	:	Financial year ended/ending 31 December, as the case may be
GDP	:	Gross domestic product
LAT	:	Loss after taxation
LBT	:	Loss before taxation

LPD	:	21 July 2017, being the latest practicable date prior to the printing of this document
LPG	:	Liquefied petroleum gas
LPS	:	Loss per share
M&A Securities or Adviser	:	M&A Securities Sdn Bhd (15017-H), the Principal Adviser to CN Asia for the Proposed Regularisation Plan
M&E	:	Mechanical and electrical
Main Market	:	Main Market of Bursa Securities
Market Day(s)	:	Any day between Monday to Friday (both days inclusive), excluding public holidays, and a day on which Bursa Securities is open for trading of securities
MMLR	:	Listing Requirements of Bursa Securities for the Main Market, as amended from time to time including any re-enactment thereof
Mt	:	Metric tonnes
NA	:	Net assets
Parcel 1	:	A parcel of leasehold land measuring approximately 9,669 sqms held under H.S.(M)20480, PT No. 17040, Tempat Jalan Balakong, Serdang, Mukim and District of Petaling, State of Selangor together with 1-storey steel frame structure annexed with 1-storey office, 1-storey steel frame structure detached factory, a 5-storey office building and a single storey temporary shed
Parcel 2	:	A parcel of leasehold land measuring approximately 6,559 sqms held under H.S.(M)20479, PT No. 17041, Tempat Jalan Balakong, Serdang, Mukim and District of Petaling, State of Selangor together with 2 single storey temporary sheds
PAT	:	Profit after taxation
PBT	:	Profit before taxation
PN17	:	Practice Note No 17 of the MMLR
Proposed Capital Reduction	:	Proposed capital reduction exercise to be carried out by the company, pursuant to Section 116 of the Act to reduce the share capital of the Company from RM48,874,465 to RM38,385,554 by the cancellation of the share capital of the company that has been lost or is unrepresented by available assets to the extent of RM10,488,911

Proposed Regularisation Plan	:	The Proposed Regularisation Plan of CN Asia which comprise the following: (i) The Business Rationalisation Plan; and (ii) The Proposed Capital Reduction
RM and sen	:	Ringgit Malaysia and sen, respectively
sqm	:	Square metres
USA or US	:	United States of America
WAMP	:	Weighted average market price

For the purpose of this Circular, all references to a time of day shall be a reference to Malaysian time unless otherwise stated.

In this Circular, words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and vice versa. References to persons shall, where applicable, include corporations.

Certain figures included in this Circular have been subject to rounding adjustments.

The rest of this page is intentionally left blank

TABLE OF CONTENTS

CN ASIA CORPORATION BHD
(Company No.: 399442-A)
(Incorporated in Malaysia under the then Companies Act, 1965)

Registered Office:

Lot 7907
Batu 11, Jalan Balakong
43300 Seri Kembangan
Selangor Darul Ehsan

18 August 2017

Directors:
Dato' Hilmi bin Mohd Noor *(Independent Non-Executive Chairman)*
Ho Cheng San *(Managing Director)*
Angeline Chan Kit Fong *(Executive Director)*
Chong Ying Choy *(Independent Non-Executive Director)*
Lee King Loon *(Independent Non-Executive Director)*
Ariffin bin Khalid *(Non-Independent Non-Executive Director)*

To: The Shareholders of CN Asia Corporation Bhd

Dear Sir / Madam,

PROPOSED REGULARISATION PLAN

---

1. INTRODUCTION

First Announcement

On 29 May 2015, the Company announced pursuant to Paragraph 2.1(e) of PN17 that it is a PN17 Issuer. The Company's previous auditors, SJ Grant Thornton had expressed an emphasis of matter on the Company's ability to continue as going concern in its independent auditors' report dated 15 April 2015 for the audited financial statements of CN Asia Group for the FYE 2014 and the shareholders' equity on a consolidated basis is 50% or less of the issued and paid-up capital of CN Asia in the Company's unaudited quarterly report for the 3-month FPE 31 March 2015.

Appointment of TA Securities

On 24 April 2016, the Company announced that it has appointed TA Securities Holdings Berhad ("TA Securities") as its Principal Adviser.

Appointment of M&A Securities

On 20 June 2016, the Company had announced that CN Asia and TA Securities had come to a mutual agreement to the resignation of TA Securities as the Principal Adviser and the appointment of M&A Securities as the new Principal Adviser.

Requisite Announcement and Proposed Regularisation Plan

On 27 February 2017, M&A Securities had on behalf of the Board released the requisite announcement pursuant to Paragraph 4.2(a) of PN17, which sets out the Company's Proposed Regularisation Plan comprising the following:

(i) The Business Rationalisation Plan; and

(ii) The Proposed Capital Reduction.

Further details of the Proposed Regularisation Plan are set out in the Section 2 below.

Submission to Bursa Securities

After several applications for extension of time, M&A Securities had on 10 March 2017 announced that the application for the Proposed Regularisation Plan has been submitted to Bursa Securities.

Approval from Bursa Securities on the Proposed Regularisation Plan

On 19 July 2017, M&A Securities announced that Bursa Securities had vide its letter dated 19 July 2017 resolved to approve the Proposed Regularisation Plan, subject to the conditions below:

(a) CN Asia and M&A Securities must fully comply with the relevant provisions under the MMLR pertaining to the implementation of the Proposed Regularisation Plan;

(b) CN Asia and M&A Securities to inform Bursa Securities upon the completion of the Proposed Regularisation Plan; and

(c) CN Asia and M&A Securities to furnish Bursa Securities with a written confirmation of its compliance with the terms and conditions of Bursa Securities' approval once the Proposed Regularisation Plan is completed.

Amendments to the terms of Proposed Capital Reduction

On 8 August 2017, M&A Securities had announced that the Board had resolved to amend the terms of the Proposed Capital Reduction to the following:

Terms of the Proposed Capital Reduction as announced on 27 February 2017	**Amended terms of the Proposed Capital Reduction**
The capital reduction exercise to be carried out by the Company, pursuant to Section 116 of the Companies Act, 2016 to reduce the share capital of the Company from RM48,874,465 to **RM36,770,519** by the cancellation of the share capital of the company that has been lost or is unrepresented by available assets to the extent of **RM12,103,946.**	The capital reduction exercise to be carried out by the Company, pursuant to Section 116 of the Companies Act, 2016 to reduce the share capital of the Company from RM48,874,465 to **RM38,385,554** by the cancellation of the share capital of the company that has been lost or is unrepresented by available assets to the extent of **RM10,488,911.**

The Board had resolved to amend the terms of the Proposed Capital Reduction after taking into consideration the accumulated losses of the Company of RM9,748,911 based on the audited financial statements of the Group for the FYE 31 December 2016 and after including the estimated expenses of RM740,000 for the Proposed Regularisation Plan.

YOU ARE ADVISED TO READ AND CONSIDER CAREFULLY THE CONTENTS OF THIS CIRCULAR TOGETHER WITH THE APPENDICES BEFORE VOTING ON THE RESOLUTION PERTAINING TO THE PROPOSED CAPITAL REDUCTION TO BE TABLED AT THE FORTHCOMING EGM.

2. DETAILS OF THE PROPOSED REGULARISATION PLAN

2.1 Background Information

2.1.1 Principal Activities

The core activities undertaken by the Group are summarised as follows:

(i) Design, fabrication and installation of:

(a) storage tanks;

(b) pressure vessels;

(c) LPG vessels;

(ii) Design, fabrication and assembly of storage tanks on road tankers; and

(iii) Provision of metal forming services.

The primary group of customers the Group serves is in oil and gas and petrochemical industries. In addition, the Group also serves customers from other industries including sewerage, civil and structural steel construction, power generation and food and beverage.

Further details of its principal activities are set out in Section 1 of **Appendix I**.

2.1.2 Events leading to the Company's PN17 Position

The Global Financial Crisis

As a result of the global financial crisis in 2008, there was a general slowdown in the local, regional and global economies which carried over to 2009. During the time, global crude oil prices began to fall in August 2008 after reaching a high of USD133.87 per barrel in July 2008. Annual average global crude oil prices fell from USD97.64 per barrel in 2008 to USD61.86 per barrel in 2009. The global financial crisis had adversely affected the global crude oil prices which led to lower spending for capital expenditure by oil and gas companies. This affected many industries, including the steel fabrication industry which the Group operates in, as well as the oil and gas and petrochemical industries which the Group serves primarily. This in turn had adversely impacted the Group's revenue and PAT due to decrease in demand for its products and services.

The Group experienced reduction in revenue since FYE 2008 due to overall slowdown in demand for storage tanks, pressure vessels and road tankers and began suffering losses from FYE 2010 until FYE 2015. As a result of these losses, the Group did not have sufficient operating cash flow to finance high capital outlay required in several major projects it was keen to participate in, and undertaking these projects would have posed high financial and operational risks for the Group. Since 2008, the Group's cash and cash equivalents has been in a negative position and the accumulated losses were RM31.80 million as at 31 December 2015. As a result, the Group was unable to secure many major projects in the following years.

The timeline below details the events that have occurred on an annual basis since FYE 2009:

2009: The global financial crisis had adversely affected the global crude oil prices which led to lower spending for capital expenditure by oil and gas companies. This in turn had adversely impacted the Group's revenue and PAT due to decrease in demand for its products and services. Between FYE 2008 and FYE 2009, the Group experienced a decline of 24.0% and 85.5% in terms of revenues and PAT, respectively.

2010: The Group experienced a further decrease in revenue and PAT as the economic slowdown had affected the export markets which the Group serves, which led to a decrease in demand for its products and services. Between FYE 2009 and FYE 2010, the Group experienced a decline of 32.9% in terms of revenue and incurred a LAT of RM3.97 million.

2011: The Group recorded a further decline in revenue resulting from the economic slowdown. The Group's revenue declined by 7.3% and LAT increased by 0.9%, respectively, in FYE 2011 from FYE 2010. During the year, the Group recorded a decrease in sale of road tankers. However, the decline in revenue was mitigated by an increase in the provision of metal forming services.

2012: The Group successfully secured a large pressure vessel fabrication contract to supply pressure vessels to Brunei and secured local orders for the fabrication of pressure vessels and road tankers, improving the Group's revenue and LAT by 50.4% and 61.2%, respectively, in FYE 2012 from FYE 2011.

2013: The Group experienced a decline in revenue of 9.7%, and the LAT reduced by 53.3% from FYE 2012 as a consequence of the higher profit margins from orders executed during the year. Gross profit margin improved by 3.6% due to lower raw material costs as orders secured during the year were mostly for metal forming services, which required less usage of raw materials.

2014: The Group was unable to secure several large orders which required high capital outlay in the first half of 2014, again due to its unfavourable cash position. Further, in anticipation for high demand from the oil and gas industry due to the high crude oil prices during the first half of 2014, the Group signed 2-year employment contracts with expatriates from India, Sri Lanka and Philippines.

However in June 2014, global oil prices began plummeting, which curbed capital expenditure in the oil and gas industry, thus affecting demand for the Group's products. This led to a decrease in the number of orders that the Group was able to secure, while operating costs increased significantly with the additional cost incurred from the hiring of the expatriates.

As a result, revenue and LAT had further deteriorated between FYE 2013 and FYE 2014.

2015: The slowdown in the oil and gas industry from the previous year continued to affect the Group's operations, leading to delays in securing certain orders and slowdown in demand from the oil and gas industry.

The Group's revenue and LAT for FYE 2015 further deteriorated as compared to FYE 2014.

2016: A decrease in crude oil prices discourages investment in the oil and gas upstream segment such as exploration and production activities, but encourages the downstream segment of the oil and gas industry, which the Group serves. In Malaysia, the sales value of storage tanks, reservoirs and containers made of metal witnessed a CAGR of 12.6% between 2010 and 2016. In line with the industry growth, the Group's revenue from tanks, which is the second largest contributor by segment, grew 17.4% from RM4.42 million in FYE 2015 to RM5.19 million in FYE 2016.

In Hong Kong, under the LPG vehicle scheme, diesel-fuelled taxis and buses are replaced with LPG. As at the end of 2015, 18,119 (99.0%) taxis and 3,013 (80.2%) public-light buses in Hong Kong are fuelled by LPG. This is in contrast to the situation in 2002, where there were 16,800 LPG-fuelled taxis and 307 LPG-fuelled buses. Consequently, the wider LPG distribution network, in terms of the increased number of LPG filling stations, will then lead to a demand for more LPG road tankers to support the transportation of LPG from the terminals to the LPG filling stations.

In FYE 2016, the Group's revenue was largely driven by the increased orders for the supply of LPG vessels to Hong Kong, where it grew 87.4% from RM4.29 million in FYE 2015 to RM8.05 million in FYE 2016. LPG vessels was the largest contributor by segment, attributed 42.9% to the Group's revenue.

The Group's revenue grew by 43.0% from RM13.11 million in FYE 2015 to RM18.75 million in FYE 2016 mainly due to substantial increase in export revenue, which grew by 277.9% from RM1.63 million in FYE 2015 to RM6.16 million in FYE 2016. Meanwhile, local revenue grew by 9.7% to RM12.58 million in FYE 2016.

Export revenue contributed 32.9% to the Group's revenue in FYE 2016 as compared to 12.4% in FYE 2015. The surge was attributed to increased orders for LPG vessels from Hong Kong by RM4.32 million, which contributed 70.1% to the Group's export revenue in FYE 2016.

In the same year, the Group has initiated cost reduction measures including reducing labour costs and optimising use of raw materials (refer to Sections 2.2.1(ii) and 3.1(ii) above for detailed information). As a result, cost of sales decreased by 4.6% from RM14.44 million in FYE 2015 to RM13.77 million in FYE 2016 despite the increase in revenue by 43.0%. Gross margin has also improved significantly from gross loss margin of 10.1% in FYE 2015 to gross profit margin of 26.6% in FYE 2016.

The rest of this page is intentionally left blank

Financial Results from FYE 2008 – 2016 and FPE 2017

An overview of CN Asia's financial results from FYE 2008 to FYE 2016 and 3-month FPE 31 March 2016 to 2017 are set out below:

	Audited									Unaudited	
	FYE 2008	**FYE 2009**	**FYE 2010**	**FYE 2011**	**FYE 2012**	**FYE 2013**	**FYE 2014**	**FYE 2015**	**FYE 2016**	**FPE 2016**	**FPE 2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	28,681	21,797	14,624	13,559	20,393	18,415	15,593	13,114	18,745	5,337	4,489
Cost of sales	(24,256)	(18,636)	(14,604)	(14,143)	(17,860)	(15,471)	(15,846)	(14,438)	(13,767)	(4,573)	(3,229)
Gross profit/(loss)	4,425	3,161	20	(584)	2,533	2,944	(253)	(1,324)	4,978	764	1,260
Other income	279	306	5	208	8	32	324	86	22,204	-	280
PAT/(LAT)	689	100	(3,971)	(4,007)	(1,556)	(726)	(4,238)	(6,284)	* 22,047	(499)	580
Gross profit/(loss) margin (%)	15.4	14.5	0.1	(4.3)	12.4	16.0	(1.6)	(10.1)	26.6	14.3	28.1
PAT/(LAT) margin (%)	2.4	0.5	(27.2)	(29.6)	(7.6)	(3.9)	(27.2)	(47.9)	117.6	(9.3)	12.9
Accumulated losses	(11,115)	(11,014)	(14,986)	(18,992)	(20,548)	(21,273)	(25,511)	(31,796)	(9,748)	(32,295)	(9,168)
NA/shareholders' funds	37,797	37,896	33,873	29,914	28,335	27,616	23,466	17,266	39,392	16,803	39,967
Net cash from/(used in) operating activities	5,687	1,072	(971)	(2,632)	912	(3,425)	(684)	(68)	4,765	596	^ (4,047)

Notes:

* Including the one-off gain from the Disposals of RM20.43 million, as follows:

Details	**RM'000**
Total disposal consideration	36,682
Less: Net book value of land and building	(13,436)
	23,246
Less: Expenses incurred for the Disposals	(1,072)
	22,174
Less: Real property gain tax	(1,742)
Gain from the Disposals	**20,432**

^ Net cash used in operating activities of RM4.05 million was mainly due to the following:

(i) Increase in inventories by RM0.77 million due to increase in raw material stock by RM1.05 million as the Group had purchased raw materials in larger bulk to further reduce its cost of sales. The Group undertook such approach as it had additional working capital from the proceeds of the Disposals. The increase was however offset by lower work-in-progress stock of RM0.27 million;

(ii) Increase in trade and other receivables by RM1.72 million due to increase in revenue towards end of FPE 2017. The trade receivables as at 31 March 2017 is RM2.95 million of which RM2.33 million or 79.0% is within the credit period granted to the customers; and

(iii) Decrease in trade and other payables by RM2.04 million mainly due to one-off goods and services tax payment arising from the Disposals of RM2.20 million which was due in FPE 2017.

The Group began to record a decline in revenue since FYE 2009 where its revenue has decreased to RM21.8 million from RM28.7 million recorded in FYE 2008. For FYE 2015, the Group recorded its lowest revenue of RM13.1 million.

Correspondingly, its gross profit/loss margin has fluctuated between a gross profit margin of 15.4% in FYE 2008 and a gross loss margin of 10.1% in FYE 2015. Notwithstanding that the Group recorded gross profit in FYE 2010, FYE 2012 and FYE 2013, the Group has been recording LAT from FYE 2010 to FYE 2015.

Resulting from the LAT recorded between FYE 2010 to FYE 2015, the Group accumulated losses had deteriorated from RM11.01 million in FYE 2009 to RM31.80 million in FYE 2015. In addition, the Group has recorded negative operating cash flows for FYE 2010, FYE 2011, FYE 2013, FYE 2014 and FYE 2015.

Kindly refer to **Appendix III** for detailed information and factors affecting the Company's past financial results.

Auditor's Opinion

The Company's previous auditors, SJ Grant Thornton have expressed an emphasis of matter in its independent auditors' report dated 15 April 2015 for the audited financial statements of CN Asia Group for the FYE 2014:

> "Without qualifying our opinion, we wish to highlight that the Group had incurred a net loss of RM4,237,935 for the financial year ended 31 December 2014 and as of that date, the total current liabilities of the Group exceeded its total current assets by RM3,646,700.
>
> These conditions indicate the existence of a material uncertainty which may cast doubt about the Group's abilities to continue as going concerns. The ability of the Group to continue as going concerns is dependent on the future profitable operations, obtaining additional financial support from other sources and successful extension of credit repayment terms by financial institutions. The financial statements of the Group does not include any adjustments relating to the amount and classification of assets and liabilities that might be necessary should the Group unable to continue as going concerns. In view of the fact that the preparation of the financial statements is on a going concern basis, we consider that this disclosure should be brought to your attention." ("Emphasis of Matter")

The Emphasis of Matter expressed by SJ Grant Thornton is based on the following:

(i) The net loss financial position of the Group of RM4,237,935; and

(ii) Total current liabilities that exceeded total current assets by RM3,646,700.

For FYE 2014, the current assets of the Group stood at RM10.86 million whereas the current liabilities stood at RM14.51 million. The current liabilities consist mainly bank borrowings amounting to RM11.97 million, representing 82.51% of the total current liabilities as at 31 December 2014. In addition, the shareholders' equity of the Group as at 31 March 2015 is RM22.08 million, which is less than 50% of the share capital of the Group of RM45.38 million.

On 29 May 2015, the Company announced that pursuant to Paragraph 2.1(e) of the PN17 of the MMLR, CN Asia is a PN17 Issuer.

Based on the above, the reasons leading to the Company's PN17 status was due to the following:

(a) Loss making position of the Group;

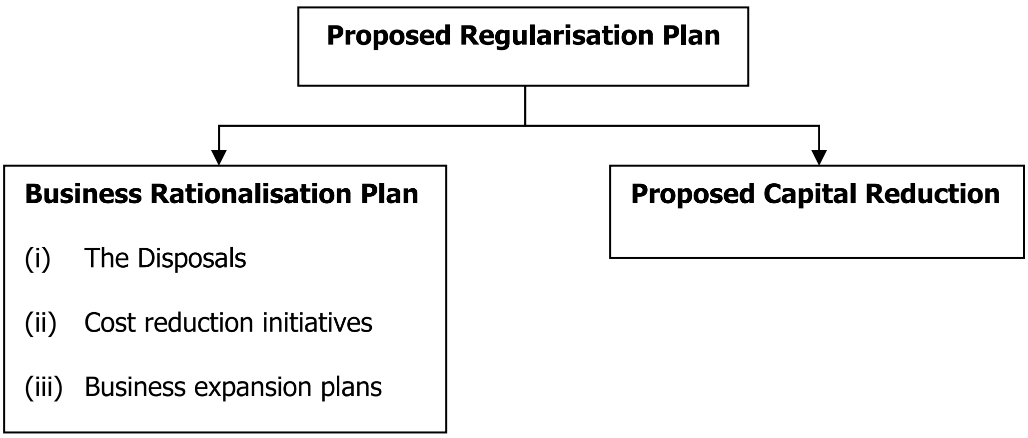
(b) Total current liabilities that exceeded total current assets; and

(c) Shareholders' equity on a consolidated basis is less than 50% of the share capital of the Company.

2.2 The Proposed Regularisation Plan

In its effort to address the issues that have resulted in the PN17 classification of CN Asia, the Board has proposed a 2 pronged approach, comprising the Business Rationalisation Plan and Proposed Capital Reduction.

The Proposed Regularisation Plan is depicted as follows:



2.2.1 Details of the Business Rationalisation Plan

The Business Rationalisation Plan sets out the Company's initiative to restore CN Asia onto stronger financial footing via the following:

(i) The Disposals

On 13 June 2016, M&A Securities had, on behalf of the Company announced that Chip Ngai Engineering Works Sdn Bhd ("Chip Ngai") and Douwin Sdn Bhd ("Douwin"), the wholly-owned subsidiaries of CN Asia, had each entered into a conditional sale and purchase agreements ("SPA") with LTK Properties Sdn Bhd ("LTK Properties" or "Purchaser"), a wholly-owned subsidiary of LTKM Berhad for the disposal by Chip Ngai and Douwin, of Parcel 1 and Parcel 2 respectively to LTK Properties, for a total cash consideration of RM36,682,500.

The following tenancy agreements were entered into for the purpose of renting back the current manufacturing facilities whilst awaiting relocation as further explained below:

(a) Tenancy agreement dated 13 June 2016 between Chip Ngai and LTK Properties where Chip Ngai will lease Parcel 1 from the Purchaser for a term of up to 36 months from the date of completion of the SPA at the rent of RM22,000 per month. The tenancy agreement was re-stated by the parties on 7 December 2016 to reflect the actual date of commencement of the tenancy of Parcel 1; and

(b) Tenancy agreement dated 13 June 2016 between Douwin and LTK Properties where Douwin will lease Parcel 2 from the Purchaser for a term of up to 36 months from the date of completion of the SPA at the rent of RM8,000 per month. The tenancy agreement was re-stated by the parties on 7 December 2016 to reflect the actual date of commencement of the tenancy of Parcel 2.

(c) Tenancy agreement dated 15 May 2017 between Chip Ngai and LTK Development Sdn Bhd ("LTK Development"), a wholly-owned subsidiary of LTKM Berhad where CN Asia will lease a vacant land measuring approximately 4,760 sqm known as H.S. (M) 20481, PT No 17042, Tempat Jalan Balakong, Serdang, Mukim and District of Petaling, State of Selangor from LTK Development for a term commencing from 1 April 2017 up to 6 December 2019 at the rent of RM1,000 per month.

(d) Tenancy agreement dated 15 May 2017 between Chip Ngai and LTK Development where CN Asia will lease a vacant land measuring approximately 4,849 sqm known as PM 8925, Lot 1196, Tempat Jalan Balakong Serdang, Pekan Baru Sungai Besi, District of Petaling, State of Selangor together with a single storey factory and a guard house erected thereon from LTK Development for a term commencing from 1 April 2017 up to 6 December 2019 at the rent of RM2,000 per month.

(collectively, referred to as "Tenancy Agreements")

The Disposals were completed on 7 December 2016, which resulted in a one-off gain from the Disposals of RM20.43 million.

As at LPD, the details of the utilisation of the proceeds of approximately RM36.68 million from the Disposals are as follows:

Details	**Notes**	**Proceeds from Disposals**	**Actual utilisation as at LPD**	**Deviation**	**Balance unutilised**
		RM'000	**RM'000**	**RM'000**	**RM'000**
Payment of real property gain tax ("RPGT")	(i)	1,100	(1,700)	600	-
Working Capital	(ii)				
(a) Repayment of bank borrowings		11,786	(11,786)	-	-
(b) Additional working capital		11,797	(11,125)	(672)	-
(c) Pledge to secure banking facilities		5,000	(5,000)	-	-

Details	Notes	Proceeds from Disposals	Actual utilisation as at LPD	Deviation	Balance unutilised
		RM'000	RM'000	RM'000	RM'000
Relocation and construction costs	(iii)	6,000	-	-	6,000
To defray expenses for the Disposals	(iv)	1,000	(1,072)	72	-
Total		**36,683**	**(30,683)**	**-**	**6,000**

Notes:

(i) Payment of RPGT amounting to RM1.70 million has been made to Inland Revenue Board for the RPGT. The shortfall amounting to RM0.60 million is funded out of the portion allocated for working capital.

(ii) Working Capital

(a) Repayment of bank borrowings

The Group had utilised RM11.79 million to repay bank borrowings. As at 31 December 2016, the bank borrowings amounted to RM1.62 million as compared to RM12.28 million as at 31 December 2015 and the gearing has decreased from 0.71 times as at 31 December 2015 to 0.04 times as at 31 December 2016.

Payment of bank borrowings amounting to RM11.79 will generate interest savings of approximately RM0.71 million per annum based on the effective interest rate of approximately 5.98% per annum.

(b) Additional working capital

The funds for working capital was utilised to finance the day-to-day operations of the Group such as payments to suppliers, payments of staff salaries and other expenses. Further details on the working capital of the Group are set out in Section 3.7.4 of Appendix III.

(c) Pledge to secure banking facilities

The sum of RM5.0 million has been pledged to banks as fixed deposits to secure for trade line facilities. The banking facilities to be issued such as bankers' acceptances, trust receipts, letters of credit and bankers' guarantees are currently utilised *inter-alia* for the payment of suppliers, purchase of raw materials and issuance of performance bonds for contracts.

(iii) RM6.0 million had been earmarked for the relocation and construction of the Group's manufacturing facilities. Kindly refer to Section 3(v) of Appendix I for further details.

(iv) The shortfall amounting to RM0.07 million is funded out of the portion allocated for working capital.

The Disposals has enabled the Group to unlock capital resources from being tied up in long term assets to strengthen its financial position and allow the Group to better focus on its core businesses. The signing of Tenancy Agreements will ensure that the on-going business operations of the Group are not disrupted via the continued rental of the land for a maximum period of up to 36 months subsequent to the Disposals.

Prior to the expiry of the Tenancy Agreements, the Group shall relocate and construct its new manufacturing facilities, office and storage area on a new site within the proximity of Selangor. In its efforts for cost saving, the new site shall be leased by the Group for its operations.

As at the LPD, the management has shortlisted 2 parcels of land which are located in Selangor. The land to be leased shall be 5 acres with leasing cost of between RM50,094 to RM54,450 per month. Kindly refer to Section 3(v) of Appendix I for further details.

In the past, the Group did not have sufficient operating cash flow to finance high capital outlay required in several major projects it was keen to participate in. As the Group's current ratio and operating cash flow improves from the proceeds from the Disposals, the Group will have greater financial capability to undertake such projects in the future. Further details on the working capital of the Group are set out in Section 3.7.4 of Appendix III.

As at the LPD, the Group has an order book of approximately RM32.61 million. With the abovementioned secured orders, the Group's prospects in expanding its growth in its existing business are positive. Further details on the order book of the Company are set out in Section 5 of Appendix III.

(ii) Cost reduction initiatives

The Group had begun its cost reduction initiatives since early 2016. The cost reduction initiatives are set out below:

(a) Reducing labour costs

During 2013, the Group had anticipated an increase in sales resulting from a planned construction of a new petrochemical project in Johor as well as from several sub-projects.

In order to qualify for and carry out the anticipated projects, the Group had hired 12 expatriates comprising engineers and skilled technicians from India, Sri Lanka and Philippines. The tenure of employment of these expatriates was for 2-year fixed terms.

However, the said petrochemical project and corresponding sub-projects did not materialise and as the Group had already committed to employing these expatriates. This has led to a surge in labour cost and constitutes 3.0% of the cost of sales and 8.3% of administrative cost in FYE 2014 and 3.2% of the cost of sales and 5.5% of administrative cost in FYE 2015 respectively.

The total salaries and the ancillary costs associated with their employment were as follows:

Details	FYE 2014 RM'000	FYE 2015 RM'000
Remuneration	635	554
Levy and work permit	44	43
Lodging	65	59
Annual flight arrangement	12	8
Total	**756**	**664**

The abovementioned employment contracts were not renewed upon their expiry at the end of 2015 and the Group was able to effectively manage its labour costs, resulting in a total saving of RM0.66 million. In the future, the Group intends to rely on its existing in-house team to manage its production operations, which is expected to be more cost-effective.

(b) Optimising use of raw materials

Prior to 2016, off-cut raw materials such as steel plates and steel pipes used in fabrication operations were discarded and sold as scrap metal. Off-cut raw materials refer to residual materials that are left after being cut and may be in odd shapes and sizes, but which remain in good condition and can be used. Off-cut raw materials are usually sold off as scrap metal at an estimated selling price of RM550 to RM900 per Mt.

Since 2016, the Group had reduced material costs by optimising the usage of off-cut raw materials instead of selling it as scrap metal. As a result, the wastage of raw materials was reduced and the Group can reduce its purchase of new raw materials.

The purchase price of new raw materials is between RM2,800 – RM3,000 per Mt for steel sourced in Malaysia and RM4,700 – RM5,500 per Mt for steel sourced from overseas.

By optimising the use of raw materials, it enabled the Group to lower its material costs and increase profitability as evidenced by the gross profit margin recorded in FYE 2016 of 26.6% as compared to the gross loss margin of 10.1% in FYE 2015.

The management estimates that the cost savings from the reduction in purchase of raw materials in FYE 2016 is RM2.16 million or 22.2% of raw materials compared to the usage of entirely new materials.

The Company purchases raw materials from both local and overseas suppliers.

The average steel price for the past 10 years based on the Company's records is as follows:

FYE	**Local purchase price per tonne RM**	**Overseas purchase price per tonne RM**
2007	2,650	4,050
2008	3,850	6,140
2009	2,510	4,240
2010	2,630	4,020
2011	3,500	4,470
2012	2,730	4,340
2013	2,550	4,030
2014	2,410	3,450
2015	2,200	4,000
2016	2,310	4,050

The Group selects the type of raw material utilised for each product according to their specification. The mild steel plates are mainly used to manufacture non-pressurised storage tanks while boiler plates are used to manufacture pressure vessels, LPG tankers and road tankers.

The raw materials purchased locally comprise of mild steel plates while the raw materials purchased overseas comprise of boiler plates.

The Group limits its exposure to raw material prices by imposing a 30 day validity period for their tenders. Once the job order is confirmed, the Company will immediately purchase the raw materials to secure its profit margins. In the event the job is awarded after the 30 days validity period, the Company will re-examine its costing prior to accepting the award.

(c) Reducing reliance of subcontractors

Contract charges represent the second largest cost component in the cost of sales. Contract charges comprise subcontractor's charges for fabrication and erection works, testing and inspection, blasting and painting, heating, design and engineering.

The contract charges represents between 18.0% and 33.6% of the cost of sales for the past 3 financial years:

	FYE 2014	FYE 2015	FYE 2016
	RM'000	RM'000	RM'000
Blasting and painting	141	228	312
Design and engineering	56	18	43
Erection works (i)	7	1,505	-
Fabrication (ii)	1,922	2,464	1,690
Heating	27	54	50
Testing and inspection (iii)	752	578	384
Total	**2,905**	**4,847**	**2,479**
Cost of sales	15,846	14,438	13,767
Percentage (%)	18.3	33.6	18.0

Notes:

(i) Erection works

In addition to the fabrication of LPG vessels and road tankers, the Group also provide installation and commissioning services.

During FYE 2015, the Group was contracted to provide erection works for its customers. However, during that year, it did not have sufficient manpower for such job and as such had contracted various subcontractors for erection works involving the installation and commissioning services.

In FYE 2016, the requests from customers for erection works have reduced and as such, the Company was able to cope and did not require third party services.

(ii) Fabrication

The Company contracts third party contractors for various fabrication works when it does not have sufficient manpower to do so.

Prior to 2016, under these third party fabrication contracts, the Company will only provide the design and steel sheets to the contractors while the contractors are responsible for all other fabrication related materials such as trimming, lining, welding electrodes and consumables which include gases (for cutting) and grinding consumables. Under such terms, the Company was not able to control the volume of fabrication materials and consumables which resulted in high fabrication costs.

During 2016, in the effort to better control its costs, the Company had decided to supply and provide all materials and consumables to the contractors. Under such terms, the contractors are only responsible for labour works.

Resulting from the change in practice, the fabrication expenses had reduced from RM2.46 million in FYE 2015 to RM1.69 million in FYE 2016.

(iii) Testing and inspection

The Company's products must undergo various testing and inspection in order to comply with certification requirements such as Underwriters Laboratories Inc, Department of Occupational Safety and Health, American Society of Mechanical Engineers and customers' specifications. Additional details on product certification are set out in Section 5(i) of **Appendix I**.

The testing and inspection conducted are charged based on a rate of RM1,950 for a 8-hour inspection, RM1,200 for a 4-hour inspection and RM340 per hour after 5pm, irrespective of the volume of products inspected during the said period. In the event testing and inspection are required during weekend or public holiday, the charges are RM4,600 for a 8-hour inspection and RM460 per hour after 5pm.

During FYE 2014 and FYE 2015, there were insufficient coordination works by the respective production divisions wherein the inspectors were called in for the inspection of small volume of products.

During FYE 2016, the Company had changed this practice, whereby the inspectors will only be called in for inspection when there are enough products to last for the full 8 hour duration for inspection.

This change in practice had reduced testing and inspection expenses from RM0.75 million in FYE 2014 to RM0.38 million in FYE 2016 despite a 20.2% increase in the revenue in FYE 2016 as compared to FYE 2014.

Moving forward, the Group will continue practising and shall place emphasis on these cost reduction initiatives in order to manage costs better and reduce wastage of raw materials, thereby leading to higher profit margins for the Group.

Resulting from the implementation of its Cost Reduction Initiatives in 2016, the Company had begun to record improvements in its financial results as follows:

(a) Improvement in GP and GP Margin

	FYE 2014 RM'000	FYE 2015 RM'000	FYE 2016 RM'000	FPE 2016 RM'000	FPE 2017 RM'000
Gross profit/(loss)	(253)	(1,324)	4,978	764	1,260
Gross profit/(loss) margin (%)	(1.6)	(10.1)	26.6	14.3	28.1

(b) Improvement in PAT and PAT margin

	FYE 2014 RM'000	FYE 2015 RM'000	FYE 2016 RM'000	FPE 2016 RM'000	FPE 2017 RM'000
PAT/(LAT)	(4,238)	(6,284)	22,047*	(499)	580
Less: One-off gain from Disposals	-	-	(20,432)	-	-
PAT/(LAT) (excluding one-off gain from Disposals)	(4,238)	(6,284)	1,615	(499)	580
PAT/(LAT) margin (%)	(27.2)	(47.9)	117.6	(9.3)	12.9
PAT/(LAT) margin (%)(excluding one-off gain from Disposals)	(27.2)	(47.9)	8.6	(9.3)	12.9

Note:

* Including the one-off gain from the Disposals of RM20.43 million.

The Cost Reduction Initiatives have improved the Group's financial performance from loss making position in the past to GP and GP margin of RM4.99 million and 26.6% as well as PAT and PAT margin (excluding the one-off gain from the Disposals) of RM1.62 million and 8.6% respectively.

Moving forward, the Board is confident that it will be able to further improve its GP and PAT Margin.

(iii) Business expansion plans

In its effort to further improve its revenue and profitability, the Group plans to expand its business operations as follows:

(a) The Group intends to further grow its existing business as well as to provide additional services

Existing Business

The Group intends to further grow its existing storage tank, road tanker, LPG vessel and metal forming business.

In the past, the Group did not have sufficient operating cash flow to finance larger projects that the Group was keen to participate in and had limit in negotiating credit terms.

With a stronger cash position with current ratio of 5.31 times and net cash from operating cash flow of RM4.77 million as at 31 December 2016, the Group has greater financial capability to undertake such projects in the future and is able to negotiate credit terms with their existing and new customers.

Additional services

The Company has identified 2 additional services to be offered as follows:

(a) Heat treatment services

Heat treatment is a process used to alter the microstructure of steel which involves the heating of steel to extreme temperatures of 900 degree celsius in order to increase the temperature resistant and strength of steel.

Currently, the Group has a sizeable furnace with a total capacity of 540 cubic meters. The furnace is currently used for post weld heat treatment of the Group's existing products, namely pressure vessels and it is only utilised 2 days every month.

In view of low usage of the furnace, the Group intends to offer heat treatment services to other fabrication companies. The Group has started its marketing efforts in this segment since end of 2016.

(b) Hot flanging services

Currently, the Group provides metal forming services for dish ends, which is generally used for pressure vessels, road tankers and LPG vessels. The Group's flanging machinery is able to form dish ends with a thickness of between 3mm and 35mm.

Under the hot flanging services, the steel will be heated up to 900 degrees celsius to allow the flanging machinery to double up the thickness of the dish ends to 70mm to cater for customers' specification.

Dish ends with thickness of up to 70mm are commonly used for highly pressurised vessels in various industries including the petrochemical and oil and gas industry. Many of such dish ends used in Malaysia are mostly imported from Japan and Europe. As such, the Group intends to provide hot flanging services to other fabrication companies in Malaysia in order to increase its revenue stream.

(b) The Group plans to undertake M&E projects, installation works, fieldworks with civil and structural construction works

The Group, had in the past, been involved in M&E projects, installation works, and fieldworks with civil and structural construction works. Such services generally command a higher profit margin as compared to fabrication works.

For the provision of these services, there are usually no upfront deposit received and the final payments are only billed at the end of each milestone. As compared to fabrication works where the deposits are received prior to commencement of work, the Company has to finance the necessary funding/working capital in order to accept these M&E projects, installation works, and fieldworks with civil and structural construction works.

Prior to the completion of the Disposals, the Company does not have sufficient working capital and as such were not able to accept these jobs. Based on the audited consolidated financial statements of CN Asia for FYE 31 December 2016, the cash and bank balance and fixed deposits with licensed banks of the CN Asia stands at RM28.75 million and based on the unaudited consolidated financial statements of CN Asia for FPE 31 March 2017, the cash and bank balance and fixed deposits with licensed banks of the CN Asia stands at RM23.73 million. As such, the Group has greater financial capability to re-commence offering these services.

The Group's strategy is to package these scope of services together with its core products at the tender stage, which is generally required by customers when setting up, amongst others, new production facilities and petrol stations.

(c) The Group plans to continue expanding its contribution from the export market

The Group's business has been focused in the local market which had contributed more than 70.0% to the Group's revenue between FYE 2013 and FYE 2015. Since 2011, the Group has secured export orders from Brunei, Hong Kong, Indonesia, Philippines, Cambodia and Singapore, while continuously building a presence in these countries. However, the contribution of export orders to the Group's revenue has been irregular save for Hong Kong, Singapore and Brunei.

The types of products/services provided for each export market are as follows:

Export market	Product/services
Brunei	Pressure vessels and road tankers
Hong Kong	LPG vessels

Export market	Product/services
Indonesia	Metal forming services
Philippines	Road tankers
Cambodia	Tanks
Singapore	Tanks, pressure vessels, LPG vessels, and metal forming services

Moving forward, the Group intends to continue expanding its regional business, particularly in Hong Kong. As part of its efforts to expand its regional business, the Group will continue to identify new customers for its products, particularly in Philippines.

(d) The Group intends to continue increasing its marketing activities

Over the years, the Group has developed good relationships with customers and has established good reputation in the industry. As part of the Group's ongoing marketing activities, the Group had in FYE 2016 increased the frequency of physical visits to customers to maintain the Group's relationships with existing and new customers from overseas.

In addition, the Group's newly appointed Executive Director, Angeline Chan Kit Fong, has been heavily involved in the sales activities of the Group since early 2016. She leads the sales team in closely monitoring sales against jobs tendered for on a monthly basis. The Group also intends to grow its sales team in order to secure more jobs in the future.

(e) The Group intends to relocate and construct its new manufacturing facilities

The Board has allocated RM6.0 million from the proceeds of Disposals for the relocation and construction of the new facilities of which RM2.0 million has been allocated for relocation costs and RM4.0 million has been allocated for construction costs. The Group shall continue with its operations at the said land up to the expiry of Tenancy Agreements while the Board secures a suitable plot of land in Selangor for the relocation of the Group's operations.

The Group estimates that the relocation process will be fully completed by the end of 2019, which will be prior to the expiry of the Tenancy Agreements entered into upon the sale of the Group's existing premises.

(Collectively, the "Business Expansion Plans")

Kindly refer to Section 4 of **Appendix I** for detailed information relating to the Group's Business Expansion Plans.

The Business Expansion Plans are formulated to enable the Group to undertake additional business activities such as undertaking M&E projects, installation works, fieldworks with civil and structural construction works while growing its existing core operations involving storage tank, road tanker, LPG vessel and metal forming business.

The Board is confident that its Business Expansion Plans, once fully implemented will contribute positively to both the revenue and profitability of the Group.

2.2.2 Details of the Proposed Capital Reduction

The Proposed Capital Reduction exercise to be carried out by the Company, pursuant to Section 116 of the Act to reduce the share capital of the Company from RM48,874,465 to RM38,385,554 by the cancellation of the share capital of the company that has been lost or is unrepresented by available assets to the extent of RM10,488,911.

The amount of RM10,488,911, being the credit arising from the aforesaid cancellation of share capital, shall be applied to eliminate the accumulated losses of the Company as at 31 December 2016 (including the estimated expenses of RM740,000 for the Proposed Regularisation Plan) to the extent of RM10,488,911 ("Accumulated Losses").

As at the LPD, the existing share capital of CN Asia is RM48,874,465 comprising 45,382,500 CN Asia Shares. Upon completion of the Proposed Capital Reduction, the Company will have a paid-up share capital of RM38,385,554 comprising 45,382,500 CN Asia Shares.

The Proposed Capital Reduction does not entail any outflow of cash or change in the net assets (save for estimated expenses to be incurred in relation to the Proposed Regularisation Plan of RM740,000) of the Company. There will be no change in the total number of issued Shares in the Company held by the shareholders immediately after the Proposed Capital Reduction, nor will the Proposed Capital Reduction involve the payment to any shareholders of any paid-up share capital of the Company.

The Proposed Capital Reduction will not result in any adjustment to the share price of the Company.

3. RATIONALE FOR THE PROPOSED REGULARISATION PLAN

3.1 BUSINESS RATIONALISATION PLAN

The rationale of the Business Rationalisation Plan is as follows:

(i) The Disposals

The Group seeks to unlock capital resources from being tied up in long term assets to strengthen its financial position via the disposal of 2 parcels of leasehold land and buildings.

The Disposals has enabled the Group to:

(i) repay up to RM11.79 million in outstanding borrowings;

(ii) pledge RM5.0 million as fixed deposits to secure banking facilities to fund the Group's new contracts;

(iii) utilise RM11.80 million as working capital to finance the day-to-day operations of the Group; and

(iv) relocate and construct its new manufacturing facilities. RM6.0 million has been allocated for this purpose.

The Disposals are expected to have a positive impact on the earnings of the Group as the total gross proceeds raised would provide funds for additional working capital and the repayment of bank borrowings which is expected to improve the Group's cash flow and result in an annual interest savings of approximately RM0.71 million based on the effective interest rate of approximately 5.98% per annum. Nevertheless, there will be an annual rental payable of RM360,000 per annum pursuant to the Tenancy Agreements.

(ii) Cost Reduction Initiatives

During 2015, the Group recorded its lowest revenue for the past 5 years of RM13.11 million, with a gross loss of RM1.32 million and a LAT of RM6.28 million. In addition, the Group suffered a gross loss margin of 10.1% and a LAT margin of 47.9%.

In order to return to profitability, the Group had identified and implemented the following cost reduction initiatives:

(a) Reducing labour costs;

(b) Optimising use of raw materials; and

(c) Reducing reliance of subcontractors.

Based on the financial results of FYE 2016 as compared to FYE 2015, the Group has increased its revenue by 43.0% from RM13.11 million to RM18.75 million while reducing cost of sales by 4.6% from RM14.44 million to RM13.77 million. This has resulted in a GP of RM4.98 million compared to a gross loss of RM1.32 million recorded in FYE 2015.

During FYE 2016, the Group recorded a GP margin of 26.6% compared to a gross loss margin of 10.1% for FYE 2015. In addition, net cash generated from operating activities had improved to RM4.77 million.

(iii) Business Expansion Plans

The Business Expansion Plans are formulated to enable the Group to undertake additional business activities while growing its existing core operations. As at the LPD, the Group has an order book of approximately RM32.61 million for its tank, pressure vessel, M&E services, road tanker, LPG vessel and metal forming business.

As at the LPD, the Group has secured the following contracts for its M&E projects and LPG fieldwork business:

(i) a contract worth RM4.50 million to provide excavation, laying and running of natural gas pipes at the Tun Razak Exchange, a new financial district being built in the heart of Kuala Lumpur.

(ii) a contract worth RM5.10 million to construct 20 units of single storey semi-detached houses and 10 units of single storey terrace house which also include the installation of hydrant and fire fighting water supply lines, erection of a central water supply tank and installation of pump station mechanical systems in Kuala Langat, Selangor.

With the abovementioned secured orders/contracts, the Group's prospects in expanding its growth is positive. Further, with the Group's improved financial position the Group will also leverage on its established reputation and industry knowledge to secure larger and more profitable contracts in the future.

Apart from its core competencies, the Group intends to return to its previous core business of civil and structural construction works which is expected to further increase its revenue stream, and thus improve its profitability in the long term.

3.2 Proposed Capital Reduction

The purpose of the Proposed Capital Reduction is to eliminate its Accumulated Losses with a view to restructure the finances of the Company. This serves to rationalise the balance sheet of the Company to reflect more accurately the value of its underlying assets, and thus the financial position of the Company. In addition, the Proposed Capital Reduction will facilitate future equity-related fund raising exercises to recapitalise and strengthen the balance sheet of the Company.

The Company would also be in a better position to retain profits and enhance its ability to pay dividends in the future, as and when appropriate, if the Accumulated Losses are written off. The Directors will take into consideration the present and future funding needs of the Company and Group before declaring any dividends.

The Board has also taken into consideration that the Proposed Capital Reduction would not result in any change to the NA position of the Group (save for the estimated expenses to be incurred in relation to the Proposed Regularisation Plan of RM740,000) and will not result in any adjustment to the share price of the Company nor the number of shares held by the shareholders.

4. RISK FACTORS

4.1 The Group is dependent on its Directors and key management

The Group's achievements are largely attributable to the continued efforts of the Executive Directors and key management personnel who are directly responsible for the strategic direction, leadership, business planning and development, and management of the Group's business operations. The loss of any of the Executive Directors and key management personnel, and the subsequent inability to recruit suitable replacement personnel in a timely manner, may adversely affect business operations and financial performance as well as its continuing ability to compete effectively in the industry.

The Group recognises the importance of the ability to retain its Executive Directors and key management personnel and have in place a human resource retention strategy, which includes maintaining a competitive remuneration package and providing opportunities for career development for employees. As part of its management succession plan, efforts have been made to promote and groom lower and middle management staff to gradually assume the responsibilities undertaken by the senior management team in order to ensure continuity in the Group's management team. Nonetheless, there can be no assurance that the Group will be able to recruit, develop and retain an adequate number of skilled and motivated employees.

4.2 The Group does not have long-term contracts

The Group does not have any long-term contracts with its customers as the sales are based on purchase orders. This is due to the nature of the business and the prevailing industry practice, where orders from customers are usually secured on a project-by-project basis. The nature of products and services provided by the Group varies according to the orders received from which is usually based on the customers' requirements and specifications. The frequency and value of orders would also vary from year to year. Hence, the Group's revenue may fluctuate from year to year and such fluctuations may have a material adverse impact on its business operations and financial performance.

Notwithstanding the absence of long-term contracts, the Group believes that its competitive strengths, experience technical expertise and its well-equipped manufacturing facility, provide a competitive edge when bidding for projects.

4.3 The Group is subject to fluctuations in raw material prices

The primary materials used in the fabrication of storage tanks, road tankers, pressure vessels and LPG vessels consist of steel, concrete, polyester resin solution and glass roving. Steel materials constitute the highest component of costs of materials and the prices of steel materials are subject to price fluctuations caused by factors such as market supply and demand conditions, prices of commodities (such as iron ore), energy costs and governmental regulations. Any material change in the aforementioned conditions may cause an increase in steel material prices, which may in turn have a material adverse impact on the Group's business operations and financial performance.

Nevertheless, the Group believes that the volatility of the cost of steel materials is manageable as its purchases are generally made upon receipt of confirmed orders from its customers so as to minimise the impact of any adverse price fluctuations in steel materials. Further, based on Group's business dealings and regular communication with its steel material suppliers, the Group is constantly kept abreast of the price trend of steel materials and this enables the Group to better manage the impact of fluctuation in steel material prices in its business operations.

4.4 The Group may experience sudden and unexpected equipment failures and natural disasters which may lead to disruptions to business operations

The Group's manufacturing activities are supported by metal forming machinery and equipment. These machinery and equipment may, on occasion, be out of service as a result of unanticipated failures or damages sustained during operations. Further, the Group's manufacturing plant may also be exposed to the risk of severe damage that may be caused by natural disasters such as floods and outbreak of fires. These unpredictable events may cause interruptions to, or prolonged suspension of a substantial part of its manufacturing facilities, or may cause damage to, or destruction of, all or part of the manufacturing plant. In addition, as the Group's manufacturing activities are dependent on continuous supply of electricity, any major disruptions to the supply of electricity may also result in interruptions to its business operations.
Any prolonged interruptions in the Group's business operations due to the aforementioned factors will affect its production schedules and timely execution of its orders from customers. This could in turn have an adverse impact on its business operations, financial performance and industry reputation.

4.5 The Group may not be able to effectively manage the growth or successful implementation of the Group's future plans and strategies

The Group plans to enhance its market presence through further expansion of its local and foreign businesses. In order to successfully implement its expansion plan, it is imperative that the Group remains competitive. Therefore, the Group is committed to continuously growing its business through the expansion of its market presence.

Although the Group's Executive Directors and key management personnel are experienced in this business and have sufficient resources to execute its future plans, there is no assurance that they will be successful in executing its future plans, nor can they assure that they will be able to anticipate, and accordingly mitigate with adequate measures, all business and operational risks arising from its future plans. There can also be no assurance that the results or outcome of the Group's future plans will achieve their desired results and contribute positively to its future financial performance.

4.6 The Group is susceptible to customer claims resulting from product defects

The Group's products are generally subject to a warranty period of between 1 and 3 years against manufacturing defects, with the Group being responsible in the event of any product defects. The Group is thus obliged to ensure that its final products are fully functional in accordance with the specifications and requirements of the customers before delivery to the same.

Any occurrence of product defects will be reflected as a cost to the Group in the form of repair costs and/or product warranty claims, and may also have an adverse implication on the Group's industry reputation. An adverse reputation or negative perception regarding the quality of its products, or the Group in general, could also result in a decrease in demand for the Group's products. Further, any incidence of product defects or failure that causes serious injury may result in lawsuits and/or civil liability claims, and loss of customer confidence in its products, which could materially impact future demand for the Group's products, thus adversely affect the Group's financial performance.

Nevertheless, the Group has in place in-process quality assurance procedures for its manufacturing processes which, to a certain extent, enables them to minimise the occurrence of product defects or failures.

Although the Group has not incurred any material cost on repair and/or replacement of its products sold to customers due to product defects, no assurance can be given that any occurrence of product defects in the future will not have an adverse impact on the Group's financial performance.

4.7 The Group is exposed to general construction and fabrication project risks

The Group's orders are generally secured on project basis and thus are subject to, amongst others, the following risks:

(i) the Group's customers may delay or cancel its projects due to unforeseen circumstances. Delays may arise from unexpected changes in project requirements, implementation timeline or unanticipated difficulties encountered. Any delay in its customers' projects will accordingly affect the Group's recognition of revenues from the relevant orders. Further, the occurrence of any unforeseen circumstances that could render its customers' projects to be unfavourable may cause cancellation or termination of the relevant projects and hence, may affect the Group's recognition of revenues from the relevant orders; and

(ii) cost overruns may occur due to delay of orders as a result of the aforesaid circumstances, which may affect the Group's financial performance.

Notwithstanding that the Group would not be able to intervene in its customers' projects, they undertake certain reasonable measures as part of its efforts to minimise any negative financial impact on its results of operations arising from such potential project risks, particularly they would carry out assessment on, *inter-alia*:

(i) the specifications of each order to ensure smooth implementation and avoid cost overrun; and

(ii) the industry reputation and credibility of its potential customers so as to establish its overall capability to successfully undertake the relevant projects.

Notwithstanding that there has not been any occurrences of delay or cancellation of projects or cost overrun which had a material adverse impact on the Group's business operations and financial performance, there can be no assurance that its financial performance will not be adversely affected in the event of any change to or delay in the expansion projects of its customers in the future.

4.8 The Group is reliant on the services of subcontractors

The steel fabrication industry is labour-intensive and requires substantial manual labour in fabrication and installation works. The Group relies mainly on its subcontractors for fabrication and installation works in its business operations as they believe it would not be cost-effective to maintain a large production workforce given the project-based nature of its orders from customers.

In view of its reliance on the services of subcontractors for fabrication and installation works, any failure by a subcontractor to deliver satisfactory services as required by the Group and its customers may result in losses to the Group in the form of rectification costs and may also adversely affect its industry reputation. However, the Group believes that such risks are mitigated as follows:

(i) in addition to the competitiveness of the subcontractors' terms of engagement, the Group's criteria for the appointment of subcontractors also include satisfactory past working experience with them. Based on the Group's previous dealings with its subcontractors, the Group is of the opinion that they are reliable and experienced, as well as familiar with the Group's standard operating procedures;

(ii) the Group maintains working relationships with a number of suitably experienced subcontractors in the industry so as to ensure that the Group is not excessively relying on the services of any particular subcontractor; and

(iii) the subcontractors are under the supervision of the Group's project team.

Although the Group has not previously experienced any major disruption to its business operations as a result of its dependence on subcontractors, no assurance can be given that they will always be able to procure such services in a timely manner for its future orders.

4.9 The Group faces competition from other market players in the steel fabrication industry

To remain competitive, the Group must continuously ensure that it maintains its product quality and design capability as failure to do so may negatively impact its track record and industry reputation, leading to a loss of business to its competitors, which could in turn negatively affect its financial performance.

The Group believes that it will be able to stay competitive based on, *inter-alia*, its track record, design and manufacturing equipment's capabilities as supported by its experienced management and technical teams, and its ability to comply with the requirements of its customers.

Notwithstanding this, there can be no assurance that the Group will be able to remain competitive in the future and that its financial performance will not be adversely affected by market competition.

5. EFFECTS OF THE PROPOSED REGULARISATION PLAN

The Business Rationalisation Plan will not have any effects on the Company's share capital, substantial shareholders, NA, gearing and earnings. The effects of the Proposed Capital Reduction are set out in the ensuing sections.

5.1 Share capital

The pro forma effects of the Proposed Capital Reduction on the Company's share capital are as follows:

	No. of shares	Share capital RM
As at the LPD	45,382,500	48,874,465
Proposed Capital Reduction	-	(10,488,911)
After Proposed Capital Reduction	**45,382,500**	**38,385,554**

5.2 NA and gearing

The pro forma effects of the Proposed Capital Reduction on the NA, NA per share and gearing position of the Company, based on its consolidated audited balance sheets as at 31 December 2016 and assuming that the Proposed Capital Reduction had been effected as at 31 December 2016 are as follows:

		I	**II**
	Audited as at 31 December 2016	**After the translation to no-par value regime(i)**	**After I and the Proposed Capital Reduction(ii)**
	RM'000	**RM'000**	**RM'000**
Share capital	45,383	48,875	38,386
Share premium	3,492	-	-
Translation reserve	266	266	266
Accumulated losses	(9,749)	(9,749)	-
Shareholders' funds / NA	39,392	39,392	38,652
No. of CN Asia Shares	45,383	45,383	45,383
NA per CN Asia Share (RM)	0.87	0.87	0.85
Interest bearing borrowings	1,621	1,621	1,621
Gearing (times)	0.04	0.04	0.04

Notes:

(i) Adjusted for the effects from the provision of the Act effective from 31 January 2017; and

(ii) Adjusted for the effects of the Proposed Capital Reduction of up to RM10.49 million, which include the estimated expenses of RM740,000 for the Proposed Regularisation Plan. A breakdown of the estimated expenses for the Proposed Regularisation Plan are as follows:

Estimated expenses	RM'000
Professional fees [(1)]	701
Printing and EGM cost	26
Miscellaneous [(2)]	13
Total	**740**

Notes:

(1) Includes advisory fees for, amongst others, the Adviser, Solicitors, Reporting Accountants, internal control consultant and independent market research consultant ("IMR").

(2) Other incidental or related expenses.

5.3 Substantial shareholders' shareholding

The Proposed Capital Reduction will not have any effect on the shareholdings of the shareholders of CN Asia.

5.4 Earnings and EPS

Save for estimated expenses to be incurred in relation to the Proposed Regularisation Plan of RM740,000, the Proposed Capital Reduction will not have any effect on the earnings or EPS of CN Asia.

5.5 Convertible securities

CN Asia does not have any other convertible securities in issue as at the LPD.

5.6 Dividends

The Proposed Capital Reduction is not expected to affect the dividend policy of CN Asia as future dividend payable would be dependent on *inter-alia*, the future profitability and cash flow position of the Group.

6. SHARE PRICE PERFORMANCE

The monthly highest and lowest prices of CN Asia shares as traded on Bursa Securities for the past twelve (12) calendar months preceding the LPD are as follows:

	High	Low
	RM	
2016		
August	0.33	0.27
September	0.35	0.30
October	0.36	0.25
November	0.30	0.20
December	0.33	0.24

	High	Low
	RM	
2017		
January	0.30	0.28
February	0.47	0.31
March	0.45	0.36
April	0.54	0.42
May	0.51	0.41
June	0.41	0.36
July	0.40	0.32

The last transacted price of CN Asia shares on 24 February 2017, being the last Market Day prior to the date of the requisite announcement was RM0.35.

The last transacted price of CN Asia shares as at the LPD was RM0.40.

(Source: M&A Securities)

7. APPROVALS

The Proposed Regularisation Plan is conditional upon the following being obtained:

(a) approval from Bursa Securities, which was obtained on 19 July 2017, for the Proposed Regularisation Plan;

(b) approval of the shareholders of CN Asia at the forthcoming EGM, for the Proposed Regularisation Plan; and

(c) confirmation of the High Court of Malaya for the Proposed Capital Reduction pursuant to Section 116 of the Act.

The Proposed Regularisation Plan is not conditional upon any other corporate proposals to be implemented by the Company, if any.

8. DIRECTORS' AND MAJOR SHAREHOLDERS' INTERESTS

None of the Directors and/or major shareholders and/or persons connected with them have any interest, whether direct or indirect, in the Proposed Regularisation Plan.

9. OUTSTANDING PROPOSALS ANNOUNCED BUT PENDING COMPLETION

Save for the Proposed Regularisation Plan which are the subject matters of this Circular, the Board confirms that there is no other outstanding corporate proposal announced by the Company to Bursa Securities, the implementation of which is still pending.

10. DIRECTORS' OPINION AND RECOMMENDATION

The Board having considered all aspects of the Proposed Regularisation Plan including the rationale for and effects of the Proposed Regularisation Plan, is of the opinion that the Proposed Regularisation Plan are in the best interest of the Group. In the opinion of the Directors:

(i) The Directors have taken the necessary steps to address the reasons and issues relating to its PN17 status including the following:

(a) implemented the Disposals which has allowed the Group to repay its outstanding bank borrowings, secure additional banking facilities and working capital as well as to finance the relocation and construction of its new manufacturing facilities as set out in Section 2.2.1(i) above;

(b) implemented various Cost Reduction Initiatives (as set out in Section 2.2.1(ii) above) which has improved the Group's financial position as evidenced by the Group achieving a GP of RM4.98 million and a PAT of RM22.05 million (including a one-off gain from the Disposals of RM20.43 million) as well as recording net cash flow from operating activities for FYE 2016 and GP of RM1.26 million and PAT of RM0.58 million for the FPE 2017; and

(c) implemented the Business Expansion Plans (as set out in Section 2.2.2(iii) above) which is aimed at securing additional revenue and revenue sources via the undertaking of additional business activities while growing its existing core operations.

(ii) The Directors are confident that the Group is able to record a net profit or positive operating cash flow in 2 consecutive quarterly results immediately after the completion of the implementation of the Proposed Regularisation Plan taking into consideration current order book in hand and a profitable FYE 2016 and FYE 2017 as further explained below:

(a) The Group has recorded PAT for the FYE 2016 and FPE 2017 as follows:

	FYE 2016 (Audited)	**FPE 2017 (Unaudited)**
	RM'000	**RM'000**
Revenue	18,745	4,489
Cost of sales	(13,767)	(3,229)
Gross profit	4,978	1,260
PAT	22,047*	580

Note:

* Including a one-off gain from the Disposals of RM20.43 million.

(iii) The continued implementation of its Cost Reduction Initiatives and Business Expansion Plans as set out in Sections 2.2.1(ii) and 2.2.1(iii) above.

(iv) The Board is confident that the Group's working capital will be sufficient for its existing and foreseeable requirements for a period of 12 months from the date of this Circular in view of the following:

(a) The Group has a net current asset position of RM27.79 million as at 31 March 2017;

(b) The Group has a cash and balances of RM1.08 million and fixed deposits with licensed banks of RM22.65 million as at 31 March 2017; and

(c) The Group has trade facilities amounting to a total of RM13.0 million and overdraft facilities of RM4.0 million, which can be utilised if required. As at 31 March 2017, the Group's bank borrowings amounted to RM0.38 million at the gearing of 0.01 times.

(v) The Directors wishes to inform that the Group no longer triggers any of the criteria of Paragraph 2.1 of PN17 as follows:

Criteria under Paragraph 2.1 of PN17		**Status**
(a)	the shareholders' equity of the listed issuer on a consolidated basis is 25% or less of the issued and paid-up capital (excluding treasury shares) of the listed issuer and such shareholders' equity is less than RM40 million;	Based on the consolidated financial results for the FYE 2016, the consolidated net assets of the Company is RM39.39 million which is more than 25% of its share capital of RM45.38 million. Based on the pro forma effects of the Proposed Capital Reduction prepared based on the audited financial position of the Company as at 31 December 2016, the consolidated net assets of the Company is RM38.65 million which is more than 25% of its share capital of RM38.39 million.
(b)	receivers or managers have been appointed over the asset of the listed issuer, its subsidiary or associated company which asset accounts for at least 50% of the total assets employed of the listed issuer on a consolidated basis;	No receiver or manager has been appointed over the assets of the Company, its subsidiaries or associated companies which asset accounts for at least 50% of the total assets employed of the Company on a consolidated basis.
(c)	a winding up of a listed issuer's subsidiary or associated company which accounts for at least 50% of the total assets employed of the listed issuer on a consolidated basis;	There is no winding-up proceedings of the Company's subsidiaries or associated companies which asset accounts for at least 50% of the total assets employed of the Company on a consolidated basis.
(d)	the auditors have expressed an adverse or disclaimer opinion in the listed issuer's latest audited financial statements;	The auditors of the Company, Siew Boon Yeong & Associates have not expressed any adverse or disclaimer opinion based on its latest audited consolidated financial statements for the FYE 2016.

Criteria under Paragraph 2.1 of PN17		Status
(e)	the auditors have highlighted a material uncertainty related to going concern or expressed a qualification on the listed issuer's ability to continue as a going concern in the listed issuer's latest audited financial statements and the shareholders' equity of the listed issuer on a consolidated basis is 50% or less of the issued and paid-up capital (excluding treasury shares) of the listed issuer; or	The auditors of the Company, Siew Boon Yeong & Associates have not highlighted a material uncertainty related to going concern or expressed a qualification on CN Asia's ability to continue as a going concern based on its latest audited consolidated financial statements for the FYE 2016. In addition, the consolidated shareholders' equity is more than 50% of the issued and paid-up share capital of CN Asia as at 31 December 2016.
(f)	a default in payment by a listed issuer, its major subsidiary or major associated company, as the case may be, as announced by a listed issuer pursuant to paragraph 9.19A of the MMLR and the listed issuer is unable to provide a solvency declaration to the Exchange.	There is no default in payment by the Company, its major subsidiaries or major associated company (if any) announced pursuant to Paragraph 9.19A of the MMLR.

As such, the Board recommends that you vote in favour of the resolution pertaining to the Proposed Capital Reduction to be tabled at the forthcoming EGM to give effect to the Proposed Capital Reduction.

11. ESTIMATED TIME FRAME FOR COMPLETION

The tentative timetable in relation to the Proposed Capital Reduction is as follows:

Date	Events
13 September 2017	EGM for the approval of the shareholders of CN Asia
End October 2017	Confirmation by the High Court for the Proposed Capital Reduction
Early November 2017	(i) Lodgement of court order with the Companies Commission of Malaysia (ii) Completion of the Proposed Capital Reduction

Barring any unforeseen circumstances and subject to receipt of all relevant approvals, the Proposed Capital Reduction is expected to be completed in the fourth quarter of 2017.

12. EGM

An EGM, the Notice of which is enclosed with this Circular, will be held at Room Congress 1, Lower Ground Level, Palace of the Golden Horses, Jalan Kuda Emas, MINES Wellness City, 43300 Seri Kembangan, Selangor Darul Ehsan on Wednesday, 13 September 2017 at 10:00 a.m. or at any adjournment thereof, for the purpose of considering the Proposed Capital Reduction contained herein and if thought fit, passing the resolution so as to give effect to the Proposed Capital Reduction.

If you are unable to attend and vote in person at the EGM, you may complete and return the enclosed Proxy Form in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive at the Company's Registered Office not less than twenty four (24) hours before the time appointed for the taking of the poll or any adjournment thereof. The lodging of the Proxy Form does not preclude you from attending and voting in person should you subsequently decide to do so.

13. FURTHER INFORMATION

You are requested to refer to the attached appendices for further information.

Yours faithfully,
For and on behalf of the Board of
CN ASIA CORPORATION BHD

DATO' HILMI BIN MOHD NOOR
Independent Non-Executive Chairman

1. PRINCIPAL ACTIVITIES

The core activities undertaken by the Group can be summarised as follows:

(i) Design, fabrication and installation of storage tanks

The Group designs, fabricates and installs underground and aboveground storage tanks mainly for gas stations and any industries that require fuel storage facilities. The tanks' capacities are customised according to requirements set out by the customers. Storage tanks can be steel or fibre-jacketed, and single-walled or double-walled. Double-walled tanks are mainly for underground installations to prevent leakage of fuel into the soil. Large tanks may be fabricated onsite, so as not to be restricted by transportation constraints.

(ii) Design, fabrication and assembly of storage tanks on road tankers

The Group designs, fabricates and assembles storage tanks for road tankers for the bulk transportation of liquids, powders or gases. Besides fabricating the tanks for installation onto the truck, it is also packaged with piping, pump and metering systems for loading and unloading of its contents.

(iii) Design, fabrication and installation of pressure vessels

The Group designs, fabricates and installs pressure vessels, mainly for the oil and gas, petrochemical, power, palm oil and food and beverage industries. The Group is registered with the Department of Occupational Safety and Health as a manufacturer of pressure vessels.

(iv) Design, fabrication and installation of LPG vessels

The Group designs, fabricates and installs LPG vessels for filling, transporting and discharging of LPG for oil and gas, and petrochemical industries.

(v) Provision of metal forming services

The Group also offers metal forming services which include mainly dish ends for pressure vessels, and other metal parts and components for road tankers and LPG vessels. These services include welding, machining and heat treatment.

The Group's production facility is equipped with metal forming machinery, enabling it to undertake cold and hot metal forming services such as rolling, dishing, pressing and flanging, to fabricate storage tanks and pressure vessels. In addition, the Group also has the capability to perform heat treatment to improve the strength and lifespan of its manufactured equipment after the welding or machining processes.

The primary group of customers the Group serves is in oil and gas and petrochemical industries. In addition, the Group also serves customers from other industries including sewerage, civil and structural steel construction, power generation and food and beverage.

The major products fabricated by the Group are as follows:

Product	Description
Underground and aboveground storage tank	
Underground storage tank 	A storage tank which is completely installed underground. A protective coating is applied to minimise and/or prevent corrosion. For double-walled tanks, the coating is fibre reinforced polymer. The Group's underground storage tanks are primarily used for storage of fuel in petrol stations and in industries which require underground fuel storage facilities.
Aboveground storage tank 	A storage tank which is mounted on skids or saddles. Suitable for tanks which need to be portable such as at construction job sites to store fuels, oils and chemicals; transport company depots; fleet depots; logistics depots; as well as mining and timber sites. The Group's aboveground storage tanks are typically used for storage of automotive diesel oils and chemicals.
Road tanker 	Road tankers comprise vessels or tanks which allow the filling, transportation and discharging of liquids and gasses such as LPG, chemicals, water and wastewater. It can also be designed to allow for the vacuum suction and discharge of sludge and water, and thus is used for desludging and removing blockages in sewer lines and drain pipes.
Pressure vessel 	A cylindrical container to store liquids or gases under pressure. The Group's pressure vessels are used as process equipment in the following industries: oil and gas, petroleum, power generation, oil palm and other process industries.
LPG vessel 	The Group's LPG vessel is used for filling, transporting and discharging LPG. The LPG vessel is installed or mounted onto a chassis for transporting.

Product	Description
Metal forming 	Metal forming for dish ends for pressure vessels, road tankers and LPG vessels.

2. PRINCIPAL MARKETS AND SEGMENTS

The Group's storage tanks, pressure vessels and road tankers are sold to customers within Malaysia and exported to other countries, as follows:

	Audited								Unaudited			
	FYE 2013		FYE 2014		FYE 2015		FYE 2016		FPE 2016		FPE 2017	
	RM (million)	%	RM (million)	%	RM (million)	%	RM (million)	%	RM (million)	%	RM (million)	%
Malaysia	13.38	72.6	12.24	78.5	11.48	87.6	12.58	67.1	3.94	73.8	4.25	94.8
Hong Kong	0.80	4.4	0.59	3.8	0.52	4.0	4.85	25.8	1.03	19.3	0.21	4.6
Brunei	3.85	20.9	1.82	11.7	0.14	1.1	0.17	0.9	-	-	-	-
Cambodia	-	-	-	-	0.16	1.2	-	-	-	-	-	-
Indonesia	0.09	0.5	-	-	0.06	0.4	0.01	0.1	-	-	-	-
Philippines	-	-	0.04	0.2	0.21	1.6	-	-	-	-	-	-
Singapore	0.30	1.6	0.90	5.8	0.54	4.1	1.14	6.1	0.37	6.9	0.03	0.6
Total	**18.42**	**100.0**	**15.59**	**100.0**	**13.11**	**100.0**	**18.75**	**100.0**	**5.34**	**100.0**	**4.49**	**100.0**

The Group's revenue grew by 43.0% from RM13.11 million in FYE 2015 to RM18.75 million in FYE 2016 mainly due to substantial increase in export revenue, which grew by 277.9% from RM1.63 million in FYE 2015 to RM6.16 million in FYE 2016. Meanwhile, local revenue grew by 9.6% to RM12.58 million. For FPE 2017, the Group's revenue decreased by RM0.85 million from RM5.34 million in FPE 2016 to RM4.49 million mainly attributable to deferred in export orders for LPG vessels to Hong Kong.

Export revenue contributed 32.9% to the Group's revenue in FYE 2016 as compared to 12.4% in FYE 2015. The surge was attributable to increased orders for LPG vessels from Hong Kong by RM4.32 million, which contributed 70.1% to the Group's export revenue in FYE 2016. Contributions from other countries were Singapore (6.1%), Brunei (0.9%) and Indonesia (0.1%) respectively.

The breakdown of the Group's revenue by segment is shown as follows:

	Audited								Unaudited			
	FYE 2013		FPE 2017		FYE 2015		FYE 2016		FPE 2017		FPE 2017	
	RM (million)	%	RM (million)	%	RM (million)	%	RM (million)	%	RM (million)	%	RM (million)	%
LPG vessels	1.79	9.7	2.33	14.9	4.29	32.7	8.05	42.9	2.53	47.4	1.36	30.3
Tanks	3.21	17.4	4.63	29.7	4.42	33.7	5.20	27.7	1.29	24.2	1.10	24.6
Pressure vessels	7.32	39.7	4.42	28.3	1.55	11.8	2.18	11.7	0.53	9.9	0.86	19.1
Road tankers	0.94	5.1	1.30	8.4	1.44	11.0	1.59	8.5	0.70	13.1	0.23	5.1
Metal forming services	5.09	27.7	2.88	18.5	1.40	10.7	1.73	9.2	0.28	5.2	0.91	20.3
Miscellaneous	0.07	0.4	0.03	0.2	0.01	0.1	-	-	0.01	0.2	0.03	0.6
Total	**18.42**	**100.0**	**15.59**	**100.0**	**13.11**	**100.0**	**18.75**	**100.0**	**5.34**	**100.0**	**4.49**	**100.0**

The increase in the revenue in FYE 2016 was mainly attributed to higher revenue derived from LPG vessels, tanks and pressure vessels. LPG vessels and tanks were the major revenue contributors, collectively accounted for 70.6% of the Group's revenue. Meanwhile, pressure vessels, road tankers and metal forming contributed 11.7%, 8.5% and 9.2% of the Group's revenue respectively.

Revenue from LPG vessels grew by RM3.76 million from RM4.29 million in FYE 2015 to RM8.05 million in FYE 2016 mainly attributed to the increased exports to Hong Kong amounted to RM4.32 million. In addition, local revenue increased by RM1.10 million mainly attributable to the increased orders for all the Group's core products save for LPG vessels.

Revenue from tanks grew from RM4.42 million in FYE 2015 to RM5.20 million in FYE 2016 mainly due to the increased local orders.

In FPE 2017, revenue decreased by RM0.85 million from RM5.34 million in FPE 2016 to RM4.49 million. The decrease was mainly due to lower revenue derived from LPG vessels and road tankers which was partially offset by higher revenue from metal forming services and pressure vessels. LPG vessels and tanks were major revenue contributors, collectively accounting for 54.9% of the Group's revenue in FPE 2017.

3. BUSINESS EXPANSION PLANS

The Group's future plans and strategies for growth are as detailed below:

(i) The Group intends to further grow its existing business as well as to provide additional services

Existing Business

The Group intends to further grow its existing storage tank, road tanker, LPG vessel and metal forming business.

In the past, the Group did not have sufficient operating cash flow to finance larger projects that the Group was keen to participate in and had limit in negotiating credit terms. The factors that contributed to the insufficient cash flow were *inter-alia,* an overall slowdown in the economy, loss of several major customers, as well as committing to employing 12 expatriate engineers and skilled technicians for 2-year fixed terms.

Upon the expiry of the contracts with the expatriates, the Group's key management began overseeing every aspect of the procurement and production processes, ensuring adherence to the Group's standard operating procedures to enhance production efficiency and profitability. This strategy will lead to better performance for the Group moving forward.

Since 2016, the Group started a few cost reduction initiatives such as reducing contract charges and labour costs, and optimising usage of raw materials in order to free up its cash flow. As the result, the Group had successfully reduced contract charges and labour costs by 48.9% and 20.0% respectively. In the same year, the Group had completed the Disposals and generated total cash of RM35.61 million.

Based on the financial results of FYE 2016 as compared to FYE 2015, the Group had increased its revenue by 43.0% from RM13.11 million to RM18.75 million while reducing cost of sales by 4.6% from RM14.44 million to RM13.77 million. This had resulted in a GP of RM4.98 million compared to a gross loss of RM1.32 million recorded in FYE 2015.

Further, with a stronger cash position with current ratio of 5.31 times and net cash from operating cash flow of RM4.77 million as at 31 December 2016, the Group has greater financial capability and expertise to undertake such projects in the future and is able to negotiate credit terms with their existing and new customers. In return, customers have to order higher volumes in order to enjoy better credit terms, which is a win-win situation for both parties.

As at the LPD, the Group has an order book of approximately RM32.61 million, including orders from Malaysia, Hong Kong and Brunei.

With the abovementioned secured orders, the Group's prospects in expanding the growth of its existing business are positive. In addition to the Group's improved financial position, the Group will also leverage on its established reputation and industry knowledge to secure larger and more profitable contracts in the future.

Further, the storage tank industry in Malaysia has shown positive growth in the past. According to the independent market research report by Smith Zander International Sdn Bhd, the storage tank industry in Malaysia grew from RM682.9 million in 2010 to RM1.4 billion in 2016, representing a CAGR of 12.6% during the period.

The Group's facility has the production capacity of 6,500 Mt per year. However, in 2016, the Group only processed 3,000 Mt over the course of the year, which is approximately 46.2% of their production capacity. As the Group has been underutilising its production capacity, they intend to increase production in the following manner:

(a) The Group plans to pre-fabricate and stock up on standardised products such as storage tanks and LPG vessels. These products will be utilised for customers who need products which require minimal customisation on an urgent basis. This measure will reduce the Group's lead time, enabling them to take in more orders; and

(b) Based on the Group's knowledge, many oil and gas companies in Malaysia require its LPG road tankers to be replaced/refurbished and/or increased its volume every 10 years or when required by the relevant authorities. The Group also understand that such companies usually outsource the maintenance and refurbishment of these road tankers to third parties. In view of this, the Group has been working closely with these third party companies by offering fabrication and refurbishment services to them since 2003. In FYE 2016, the Group managed to secure a contract for such services for 10 units of road tankers which is due for delivery by third quarter of FYE 2017.

    Moving forward, the Group intends to continue working closely with these companies in order to secure additional orders.

The rest of this page is intentionally left blank

Additional services

The Company has identified 2 additional services to be offered as follows:

(a) Heat treatment services

Heat treatment is a process used to alter the microstructure of steel which involves the heating of steel to extreme temperatures of 900 degree celsius in order to increase the temperature resistance and strength of steel.

Currently, the Group has a sizeable furnace with a total capacity of 540 cubic meters. The furnace is currently used for post weld heat treatment of the Group's existing products, namely pressure vessels and it is only utilised 2 days every month.

In view of the low usage of the furnace, the Group intends to offer heat treatment services to other fabrication companies. As at LPD, the Company had secured projects for heat treatment services amounting RM0.02 million.

(b) Hot flanging services

Currently, the Group provides metal forming services for dish ends, which is generally used for pressure vessels, road tankers and LPG vessels. The Group's flanging machine is able to form dish ends with a thickness of between 3 – 35mm.

Under the hot flanging services, the steel will be heated up to 900 degrees Celsius to allow the flanging machine to form dish ends with thickness of up to 70mm to cater for customers' specifications.

Dish ends with thickness of up to 70mm is commonly used for highly pressurised vessels in various industries including the petrochemical and oil and gas industry. Many of such dish ends used in Malaysia are mostly imported from Japan and Europe. As such, the Group intends to provide hot flanging services to other fabrication companies in Malaysia in order to increase its revenue stream.

(ii) The Group plans to undertake M&E projects, installation works, fieldworks with civil and structural construction works

The Group, had in the past, been involved in M&E projects, installation works, and fieldworks with civil and structural construction works. Such services generally command a higher profit margin as compared to fabrication works. Past M&E projects undertaken by the Group include the following:

(a) installation, testing and commissioning of a desludging system at Kempas Baru Depot in Johor, valued at RM0.13 million which was completed in 2014; and

(b) installation, testing and commissioning of LPG facilities, valued at RM1.28 million which was completed in 2015.

For the provision of these services, there are usually no upfront deposit received and the final payments are only billed at the end of each milestone. As compared to fabrication works where the deposits are received prior to commencement of work, the Company has to finance the necessary funding/working capital in order to accept these M&E projects, installation works, and fieldworks with civil and structural construction works.

Prior to the completion of the Disposals, the Company did not have sufficient working capital and as such were not able to accept these jobs. Based on the audited consolidated financial statements of CN Asia for FYE 31 December 2016 and unaudited consolidated financial statements of CN Asia for FPE 31 March 2017, the cash and bank balance and fixed deposits with licensed banks of the CN Asia stood at RM28.75 million and RM23.73 million respectively, and the Group had greater financial capability to re-commence offering these services. In particular, the Group intends to offer such services to process-related industries such as oil and gas industry, petrochemical and oil palm industries, as well as to the general construction industry. The Group holds the necessary licences and registrations to carry out such works, including a Grade G7 contractor licence with the Construction Industry Development Board Malaysia, which affords them unlimited tendering capacity on construction projects.

The Group's strategy is to package these scope of services together with its core products at the tender stage, which is generally required by customers when setting up, amongst others, new production facilities and petrol stations.

Further, the Group also has the option of outsourcing these services to subcontractors when necessary and to be cost-effective, evidence by the Group's return to profitability in FYE 2016 and FPE 2017.

As at the LPD, the Group has secured the following contracts for its M&E projects and LPG fieldwork business:

(i) a contract worth RM4.50 million to provide excavation, laying and running of natural gas pipes at the Tun Razak Exchange, a new financial district being built in the heart of Kuala Lumpur.

(ii) a contract worth RM5.10 million to construct 20 units of single storey semi-detached houses and 10 units of single storey terrace house which also include the installation of hydrant and fire fighting water supply lines, erection of a central water supply tank and installation of pump station mechanical systems in Kuala Langat, Selangor.

(iii) The Group plans to continue expanding its contribution from the export market

The Group's business has been focused in the local market which had contributed more than 70.0% to the Group's revenue between FYE 2013 and FYE 2015. For FYE 2016, the local market contributed approximate 67.1% of its Group revenue as the Group started its plan to expand the export market. Since 2011, the Group has secured export orders from Brunei, Hong Kong, Indonesia, Philippines, Cambodia and Singapore, while continuously building a presence in these countries. However, the contribution of export orders to the Group's revenue has been irregular save for Hong Kong, Singapore and Brunei.

The Group has established a strong foundation in Hong Kong since 2008 and is recognised by the Hong Kong Gas Safety Authority for the manufacturing of LPG vessels. In 2016, the Group decided to focus on the export market, particularly in this region by way of frequent physical visits and close follow-up with prospective customers. As a result, the Group managed to secure substantial LPG vessel orders from Hong Kong.

Moving forward, the Group intends to continue expanding its regional business, particularly in Hong Kong, which contributed 25.8% to the Group's total revenue in FYE 2016. The LPG industry in Hong Kong is growing in light of the increasing number of LPG vehicles on the road and the number of LPG refilling stations.

Between 2002 and 2017, the number of LPG filling stations grew by a CAGR of 3.3%, while the number of taxis and public-light buses grew by CAGRs of 0.6% and 18.0% respectively. The Group's strategy for Hong Kong is by way of physical visits and referrals.

As part of its efforts to expand its regional business, the Group will continue to identify new customers for its products, particularly in Philippines, by way of physical visits and referrals. As at LPD, the Group has secured a project in the Philippines amounting to RM1.5 million which is expected to be completed by the fourth quarter of 2017. The Philippines has been identified as a market with high potential for growth, particularly in the sewerage treatment industry, where the number of households in the Philippines with access to sanitation services is expected to increase as the nation develops and provides greater access to funding, Thus, the number of septic tanks and pit latrines, and consequently, the demand for sewage road tankers, will increase as well to support the collection and transportation of sewage from residential properties for onward treatment or disposal.

(iv) The Group intends to continue increasing its marketing activities

Over the years, the Group has developed good relationships with customers and has established a good reputation in the industry. As part of the Group's ongoing marketing activities, the Group had in FYE 2016, increased the frequency of physical visits to maintain the Group's relationships with existing and new customers from overseas.

In addition, the Group's newly appointed Executive Director, Angeline Chan Kit Fong, has been heavily involved in the sales activities of the Group since early 2016. She leads the sales team in closely monitoring sales against jobs tendered for on a monthly basis. The Group also intends to grow its sales team in order to secure more jobs in the future.

Planned marketing activities for 2017 are as follows:

Quarter	Geographical Region	Product Segment	No. of Existing / New Prospects	No. of Visits
Third quarter	Hong Kong	LPG vessels, LPG road tankers	1 to 2	1-2
	Philippines	Road tankers	1 to 2	1-3
	Singapore	Metal forming, PWHT, pressure vessels, tanks	> 10	3
	East Malaysia	Pressure Vessels, tanks, metal forming, road tankers	3-5	2
	North and South Malaysia	Metal forming, road tankers, LPG vessels, Pressure vessels	3-5	3
	Brunei	Pressure vessels	2	1
	Klang Valley	All products	Multiple	> 60

Quarter	Geographical Region	Product Segment	No. of Existing / New Prospects	No. of Visits
Fourth quarter	Hong Kong	LPG vessels, LPG road tankers	1 to 2	1-2
	Philippines	Road tankers	1 to 2	1-3
	Singapore	Metal forming, PWHT, pressure vessels, tanks	> 10	3
	East Malaysia	Pressure vessels, tanks, metal forming, road tankers	3-5	2
	North and South Malaysia	Metal Forming, road tankers, LPG vessels, Pressure vessels	3-5	3
	Brunei	Pressure vessels	2	1
	Klang Valley	All products	Multiple	> 60

Further, due to the Group's good reputation in the market, the Group has secured several road tanker orders amounting to RM5.81 million as at the LPD as compared to RM1.59 million for FYE 2016, registering an increase of 265.41%. The increased in road tanker orders also attributed to the cyclical nature of the road tanker industry.

Road tankers are usable up to 8 to 10 years from the date of manufacturing. Hence, customers who have previously purchased from the Group are placing orders for replacement road tankers.

In view of the above, the Group will continue to enhance its marketing efforts through physical visits, in order to further strengthen its relationships with customers.

(v) The Group intends to relocate and construct its new manufacturing facilities.

The Board has allocated RM6.0 million from the proceeds of the Disposals for the relocation and construction of the new facilities of which RM2.0 million has been allocated for relocation costs and RM4.0 million has been allocated for construction costs. The Group shall continue with its operations at the said land up to the expiry of Tenancy Agreements while the Board secures a suitable plot of land in Selangor for the relocation of the Group's operations.

As at the LPD, the management has shortlisted 2 parcels of land which are located in Selangor. The details of the 2 parcels of lands are as follows:

Details	Parcel 1	Parcel 2
Location	Banting, Selangor	Sepang, Selangor
Type of land	Industrial land	Industrial Land
Land size	2,178,000 sq ft (50 acres)	217,800 sq ft (5 acres)
Rental per sq ft	RM0.25	RM0.23
Estimated monthly rental for 5 acres	RM54,450	RM50,094

Based on the required size for the new manufacturing facilities of approximately 5 acres, the rental cost per month is estimated to be between RM50,094 to RM54,450.

Currently, the total rental paid by CN Asia to LTKM Group is RM33,000 per month. The incremental rental cost that may be incurred by CN Asia is between RM17,094 to RM21,450.

The timeline for the construction of the new manufacturing facility is as follows:

Timeline	Details
Second quarter of 2018	Secure lease for the new site
Third quarter of 2018	Apply for planning and construction permit
Fourth quarter of 2018	Commence construction of new manufacturing facility
Second quarter of 2019	Completion of construction and commence relocation of machinery and equipment

The Group estimates that the relocation process will be fully completed by the end of 2019, which will be prior to the expiry of the Tenancy Agreements entered into upon the sale of the Group's existing premises.

The Group's production capacity is 6,500 Mt per year. The utilisation of the existing production facilities for the past 3 years as well as the estimated utilisation for FYE 2017 (based on secured order book of RM32.61 million) are as follows:

	FYE 2014 (actual)	**FYE 2015 (actual)**	**FYE 2016 (actual)**	**FYE 2017 (estimated)**
Utilisation (Mt)	2,800	2,300	3,000	4,400
Percentage utilisation (%)	43.1	35.4	46.2	67.7

The construction of the Group's current manufacturing facilities was completed in 1993. The Group has since expanded its operations with the provision of additional services to cater to the demands of its clientele. Such services include the construction of facilities for steel fiber coatings, road tankers, stainless steel bay, thick wall vessels, baking oven, furnace, gauging bay, heat treatment and blasting and paining. The subsequent addition of these new facilities were constricted by permanent existing facilities and structures and restriction in available space at the expense of workflow processes of the Group's operations.

The new manufacturing facilities will be designed according to the workflow process of the Group where the new manufacturing facilities will be suited to the manufacturing requirements of the Group and will be more efficient in terms of material handling and overall production process. The streamlined operations will reduce the need for mobilisation of raw materials and/or semi-finished products during the manufacturing process. This is expected to lead to an increase in production efficiency and is expected to increase the production capacity by 10% to 7,150 Mt per annum.

The approximate cost savings, based on the assumption that the estimated orders for FYE 2017 are fabricated in the new factory under the new production layout is as follows:

Product/services category	Production volume (units)	No. of hours saved per unit of production (hours)	No. of hours saved (hours)	Total savings (RM)*
LPG vessels	30	111	3,330	66,600
Tanks	210	67.5	14,175	283,500
Pressure vessels	35	111	3,885	77,700
Road tankers	20	111	2,220	44,400
Metal forming	125	10	1,250	25,000
			24,860	**497,200**

Note:

* Based on the estimate wage of RM20/hour.

Based on the comparison of manpower required for jobs estimated based on order book for FYE 2017 carried out in the current factory production layout against the new factory production layout, the Group will be able to save up to 24,860 hours for the production/services provided in the new factory production layout. At an estimated wage of RM20 per hour, the Group can save up to approximately RM0.50 million per annum.

Under the management's relocation plans, the machineries shall be moved to the new manufacturing facility in stages to minimise disruption in its production operations. The Group has two or more similar machineries for each fabrication process, as such, the manufacturing operations of the Group will continue at the current factory while the disassembly, moving and refurbishment and reassembly of machineries are carried out in the new factory until the completion of the relocation. During the transitioning period, the Group intends to keep both new and old factory in operations.

As such, barring unforeseen circumstances, the management does not foresee that the Group's operations will be materially affected by the factory relocation.

4. INDUSTRY OUTLOOK AND PROSPECTS

4.1 Outlook and prospects of the storage tanks industry

The storage tank industry in Malaysia is a growing industry, as storage tanks are used in a wide variety of industries, especially in the oil and gas industry, petrochemical industry and manufacturing industry. In Malaysia, the sales value of tanks, reservoirs and containers made of metal witnessed a CAGR of 12.6% between 2010 and 2016. During the 6-year period, the sales value of manufactured tanks, reservoirs and containers made of metal grew from RM682.9 million in 2010 to RM1.4 billion in 2016.

In addition to the manufacture of storage tanks in the country, the country also witnessed a growth in the manufacture of bodies for motor vehicles, which comprises road tankers, trailer and semi-trailers. In 2016, the sales value of manufactured bodies for motor vehicles stood at RM680.9 million, growing at a healthy CAGR of 24.4% from RM184.1 million in 2010.

4.2 Outlook and prospects for the pressure vessel industry

The pressure vessel industry size in Malaysia is computed based on revenues of companies licenced by the Department of Occupational Safety and Health Malaysia to fabricate pressure vessels.

Between 2010 and 2015, the pressure vessel industry in Malaysia illustrated a CAGR of 9.0%, growing from RM2.6 billion in 2010 to an estimated RM4.0 billion in 2015. The growth of the industry is expected to be driven by the growth in demand for petrochemical products and edible oil products from end-user industries and increase in downstream oil and gas activities driven by low prices of oil and gas.

4.3 Outlook and prospects of the LPG industry in Hong Kong

The road tanker industry, especially LPG road tankers, is growing in light of the increasing number of LPG vehicles on the road and the number of LPG refilling stations.

In Hong Kong, LPG is imported by sea and stored at 5 terminals on Tsing Yi island awaiting distribution. The distribution is carried out in 2 methods: by pipelines directly to buildings or by LPG road tankers to filling stations. As at December 2015, there are 67 LPG filling stations in operation in Hong Kong and these LPG filling stations could either be standalone LPG filling stations or petroleum- or diesel- shared filling stations. These LPG filling stations are operated by oil and gas multinationals such as Shell, Exxonmobil and Caltex, as well as local operators such as Sinopec and PetroChina.

In 1999, the LPG Vehicle Scheme was introduced in Hong Kong to reduce pollutant emissions from vehicles. Under that Scheme, diesel-fuelled taxis and buses are replaced with LPG. This scheme has since been completed, and as at the end of 2016, 18,145 (99.9%) taxis and 3,119 (71.7%) public-light buses in Hong Kong are fuelled by LPG. This is in contrast to the situation in 2002, where there were 16,800 LPG-fuelled taxis and 307 LPG-fuelled buses.

Thus, as the number of public transportation vehicles running on LPG in the country increases, there will be more demand for more LPG filling station. Consequently, the wider LPG distribution network, in terms of the increased number of LPG filling stations, will then lead to a demand for more LPG road tankers to support the transportation of LPG from the terminals to the LPG filling stations.

4.4 Outlook and prospects of the sewerage treatment industry in the Philippines

Access to safe water supply and sanitation services are essential for the population's wellbeing and a cleaner environment, as well as a country's growth and economic development. However, in the Philippines, the annual budget allocations for the improvement and expansion of the accessibility to safe water and sanitation services is inadequate. As a result, there is a disparity between the urban and rural areas in the Philippines, with most of the funding reserved for use in the urban areas, particularly the country's capital, Manila, while the rural areas are left with little to no funding.

In 1993, the inequality in the accessibility to sanitation services, i.e. toilet facilities, is apparent in the Philippines, where 75.8% of the urban households have access to flush toilet facilities but only 50.4% of the rural households have access to flush toilet facilities. Nevertheless, sanitation services in the country have improved over the past 20 years, as depicted by the 93.5% of the urban households with access to flush toilet facilities in 2013, in comparison to the 82.6% of the rural households in the same year. At the same time, over the period between 1993 and 2013, the percentage of urban households with no access to toilet facilities have reduced from 5.8% to 2.9%, while rural households saw a decrease from 20.1% to 9.0% over the same period.

As the Philippines continues to develop and have greater access to funding for the improvement and expansion of the accessibility to sanitation services, the country will be able to achieve its target of nationwide safe sanitation coverage by 2028, which was expressed in the Philippine Sustainable Sanitation Roadmap 2010 ("Roadmap"). This Roadmap serves as a guide for national and local agencies in the development and implementation of policies and programs related to providing a safe and sustainable sanitation services to the population of the Philippines.

Thus, as the number of households in the Philippines with access to sanitation services increases, there will be an increase in the number of septic tanks and pit latrines, as both of these types of toilets have the lowest cost method of reducing open defecation. Consequently, the increase in the number of septic tanks and pit latrines will then lead to a demand for more sewage road tankers to support the collection and transportation of sewage from residential properties for onward treatment or disposal.

5. COMPETITIVE STRENGTHS

The following competitive strengths have played a part in supporting the growth of the Group's business since inception:

(i) The Group has extensive experience and technical expertise in the steel fabrication industry

The Group has been in business since its incorporation in 1944, and has built a strong reputation in the steel fabrication industry, particularly for storage tanks, pressure vessels and road tankers. The Group's business relationship with most of its major customers of at least 5 years is evidence of its ability to provide reliable products and after-sales service. The Group's products have warranty periods against manufacturing defects that range between 1 and 3 years.

Throughout its 72-year history, the Group has also been involved in the construction, oil and gas, oil palm and mining industries. The Group has grown and evolved with the economic growth of the country.

Further, the Group has also demonstrated its ability to comply with the strict design and manufacturing requirements set by local and international customers, as it has received numerous certifications from international bodies as listed below:

Code/Standard	Certification Body	Scope	Year Awarded
• ISO 9001:2008 • EN ISO 9001:2008 • BS EN ISO 9001:2008 • MS ISO 9001:2008	Lloyd's Register of Shipping (M) Bhd on behalf of Lloyd's Register Quality Assurance Ltd	Design, manufacture and installation of storage tanks, pressure vessels, road tankers, dished-ends and related mechanical/civil engineering works.	2003
• UL 58	Underwriters Laboratories Inc.	Steel underground tanks for flammable and combustible liquids.	2005
• UL 1746	Underwriters Laboratories Inc.	External corrosion protection systems for steel underground storage tanks.	2005

Code/Standard	Certification Body	Scope	Year Awarded
• U • U2	American Society of Mechanical Engineers	Manufacture of pressure vessels.	2014
• S	American Society of Mechanical Engineers	Manufacture and assembly of power boilers.	2014
• NB	National Board of Boiler and Pressure Vessel Inspectors	Authorised to apply the "NB" mark and register boilers, pressure vessels or other pressure retaining items with the National Board. Limited to items manufactured in accordance with S, U2, U.	2014
• R	National Board of Boiler and Pressure Vessel Inspectors	Authorised to use the "R" symbol in accordance with the provisions of the National Board. Limited to metallic repairs, field repairs and/or alterations.	2014

In addition, the Group is also registered with the following local bodies:

- Construction Industry Development Board;
- Ministry of International Trade;
- Ministry of Finance;
- Department of Occupational Safety and Health; and
- Road Transport Department.

These certifications serve as a testimony that the Group is able to comply with strict design and manufacturing requirements in accordance to local and international standards. This has enabled the Group to be effective and successful in both securing and retaining its customers.

(ii) The Group has a well-equipped fabrication facility

The Group's fabrication facility is equipped with machinery and equipment that can facilitate the entire fabrication process of its products such as lifting, rolling, welding, cutting, testing and assembly. The Group also has the ability to provide metal forming services such as rolling and dishing due to its cold rolled and hot rolled bending machines.

Over 90% of the Group's machinery and equipment is imported from Europe. The Group's strategy is to purchase forward, by buying machinery which is more advanced than required at the time, in anticipation of future needs and to provide a larger range of services. This way, the Group is able to use the equipment over a longer period of time.

As the Group has a well-equipped fabrication facility, it performs all of its fabrication processes in-house and is thus able to monitor and maintain the quality of its products.

However, the Company contracts third party contractors for various fabrication works when it does not have sufficient manpower to do so. These comprise mainly fabrication and erection works, testing and inspection, blasting and painting, heating, design and engineering.

(iii) The Group's competitive strength in Malaysia

CN Asia has been in business for 73 years since incorporation in 1944 and has built an established presence in Malaysia in view of the following:

(a) The Group's fabrication facility is equipped with machinery and equipment that can facilitate the entire fabrication process of its products such as lifting, rolling, welding, cutting, testing, assembly, blasting and painting.

(b) The Group has an experienced management team, led by their Managing Director, Ho Cheng San, who is actively involved in managing the daily operations and setting the strategic direction for the Group.

(c) In the road tanker segment, the key strength of CN Asia is that it has both Department of Occupational Safety and Health Malaysia (DOSH) and Jabatan Pengangkutan Jalan Malaysia (JPJ) licenses. As such, the Group is capable of supplying the entire road tanker, comprising the storage tank installed on the chassis of the truck, to its customers.

As the LPD, the Group (via its subsidiary Chip Ngai Engineering Sdn Bhd) is one of only three companies in Kuala Lumpur and Selangor with both DOSH and JPJ licenses.

(d) The Group's metal forming services include both hot and cold flanging services. To the best of its knowledge, CN Asia is the only company in Malaysia which has the capability to provide both hot and cold flanging services.

With the sizeable furnace with a total capacity of 540 cubic meters, The Group's hot flanging service is able to form dish ends with a thickness of up to 70mm to cater for customers' specification. Currently, dish ends at 70mm are imported and not manufactured in Malaysia. As such the Company believes that the response for this segment will be well received as its machinery can handle up to 70mm dish ends, which is comparably thicker than what its competitors can offer and is expected to be cheaper than imported dish ends.

(iv) The Group has an established export business in the Asia region

The Group has built its export business in the Asia region, as evidenced by its revenue contribution from overseas customers of 21.5%, 12.4% and 32.9% from FYE 2014 to FYE 2016. The Group's export business is generated mainly from customers in Hong Kong and Singapore.

By leveraging on its network of existing customers in Asia, the Group intends to continue securing more orders while spreading its market reach in these countries. The Group's successful track record will provide it with strong credentials to gain acceptance and secure new orders with new customers in these countries.

(v) The Group has an experienced and professional management team

The Group has an experienced management team, led by its Managing Director, Ho Cheng San, who is actively involved in managing the daily operations and setting the strategic direction for the Group.

Ho Cheng San is supported by a team of experienced key management personnel, including Executive Director, Angeline Chan Kit Fong; Group Financial Controller, Lim Paik Goot; Head of Engineering, Ir Lee Lam; and Business Development Manager, Qua Hock Guan, who have all been part of the Group for more than 10 years. Ariffin bin Khalid was appointed in 2016 as Non-Independent Non-Executive Director, bringing with him over 40 years of experience in the oil and gas industry, including management and advisory roles.

The management team's combined skills, extensive knowledge of the Group's products and services, strong management capabilities and continued focus on realising strategies are vital to the Group's continued growth and future development.

The rest of this page is intentionally left blank

SMITH ZANDER INTERNATIONAL SDN BHD (1058128-V)
Suite 23-3, Level 23, Office Suite, Menara 1MK,
1 Jalan Kiara, Mont' Kiara,
50480 Kuala Lumpur, Malaysia.
T +603 6211 2121
www.smith-zander.com

SMITH ZANDER

Date: 18 AUG 2017

The Board of Directors
Lot 7907, Batu 11, Jalan Balakong
43300 Seri Kembangan
Selangor Darul Ehsan
Malaysia

Dear Sirs,

Independent Market Research Report on the Storage Tank Industry in Malaysia, the Pressure Vessel Industry in Malaysia, the Oil and Gas and Petrochemical Industries in Malaysia, the Liquefied Petroleum Gas ("LPG") Industry in Hong Kong and the Sewerage Treatment Industry in Philippines in relation to the Proposed Regularisation Plan and Notice of Extraordinary General Meeting.

This Independent Market Research Report on the Storage Tank Industry in Malaysia, the Pressure Vessel Industry in Malaysia, the Oil and Gas Industry and Petrochemical Industries in Malaysia, the LPG Industry in Hong Kong and the Sewerage Treatment Industry in Philippines was prepared by SMITH ZANDER INTERNATIONAL SDN BHD ("SMITH ZANDER") in August 2017 in relation to the Proposed Regularisation Plan and Notice of Extraordinary General Meeting.

For and on behalf of SMITH ZANDER:

DENNIS TAN
MANAGING PARTNER

1 ECONOMIC OVERVIEW

Malaysia

The Malaysian economy recorded a higher growth of 5.6% in the first quarter of 2017 (4Q 2016: 4.5%). Private sector activity was higher and remained as the main driver of growth. Growth was further lifted by higher exports, as increased demand for manufactured products led to a strong growth in real exports (9.8%; 4Q 2016: 2.2%). Real imports also increased at a faster rate of 12.9% (4Q 2016: 1.6%) on account of higher growth of capital and intermediate goods. On a quarter-on-quarter seasonally-adjusted basis, the economy recorded a growth of 1.8% (4Q 2016: 1.3%).

Domestic demand growth increased to 7.7% in the first quarter of the year (4Q 2016: 3.2%), supported by continued expansion in private sector expenditure (8.2%; 4Q 2016: 5.9%) and the turnaround in public sector expenditure.

Private consumption grew by 6.6% (4Q 2016: 6.1%). Household spending remained supported by continued expansion in employment and wage growth. The implementation of selected Government measures, including the higher amount of Bantuan Rakyat 1Malaysia cash transfers, also provided additional impetus to household spending. Public consumption recorded a stronger growth of 7.5% (4Q 2016: -4.2%) attributed to higher spending on both emoluments and supplies and services.

Private investment grew at a robust pace of 12.9% (4Q 2016: 4.9%), following continued capital spending in the services and manufacturing sectors. Investments in machinery and equipment were higher during the quarter, supported by the implementation of several large-scale projects in the manufacturing sector.

Business sentiments improved during the quarter amid the better international economic environment and more stable financial markets. Public investment registered a higher growth of 3.2% (4Q 2016: -0.4%), driven mainly by higher spending on fixed assets by public corporations. Gross fixed capital formation (GFCF) rose by 10.0% (4Q 2016: 2.4%), due to a turnaround in public investment and higher private investment growth. The stronger growth in total investment was due to broadbased increases in capital spending in machinery and equipment (21.8%; 4Q 2016: 2.9%), structures (3.8%; 4Q 2016: 2.8%) and other types of assets (1.4%; 4Q 2016: -2.0%).

On the supply side, most economic sectors expanded at a faster pace. The improvement in the overall growth was contributed primarily by the turnaround in the agriculture sector and higher growth in the manufacturing and services sectors.

Growth in the agriculture sector rebounded as crude palm oil yields recovered from the negative impact of El Niño. The performance of the sector was also supported by a double-digit expansion in rubber production. In the manufacturing sector, growth was driven mainly by the electronics and electrical segment, in line with the continued favourable global demand for semiconductors. The domestic-oriented industries were supported by the continued demand for food-related products and a rebound in the motor vehicle production.

The services sector expanded at a faster pace in the first quarter. Growth in the wholesale and retail sub-sector improved in line with higher household spending. The finance and insurance sub-sector also registered higher growth, supported by improvements in loan growth and capital market activity amid higher issuance of IPOs. Growth in the construction sector was stronger, supported by civil engineering activity in the petrochemical, power plant and transportation segments.

In the mining sector, growth moderated on lower crude oil production, particularly in Sarawak and Peninsular Malaysia, as part of the global initiative to reduce oil production.

Source: Extracted from Bank Negara Quarterly Bulletin, First Quarter 2017

The Philippines

The Philippine economy continued to expand in Q1 2017, registering a growth of 6.4%. On the supply side, services and industry sectors continued to drive growth with the agriculture sector making a positive contribution. On the demand side, household spending and capital formation remained the key drivers of growth with exports recording double-digit growth amid improving external demand.

The sustained strength of the economy was accompanied by an increase in inflation to 3.2% during the review quarter. The average headline inflation for the first quarter of 2017 is within the NG's announced target range of 3.0% ± 1.0 ppt for 2017.

The Philippine banking system remained solid and resilient in Q1 2017. Bank lending continued to expand, increasing by 20.2% during the review quarter. This was accompanied by improvements in bank capitalization and loan exposure coverage.

In terms of external payments position, the country's external buffers continued to grow, with reserves amounting to US$80.9 billion as of end-March 2017. Remittances and receipts from business process outsourcing continued to support the country's external position. At the same time, external debt remains manageable, with a debt profile composed largely of medium- to long-term (MLT) maturities.

Monetary policy settings were kept steady in Q1 2017. The BSP's decision to maintain key policy interest rates was based on its assessment that the inflation environment remained manageable. Moreover, the continued expansion in domestic liquidity, which grew by 11.6% as of end-March 2017, point to monetary conditions being supportive of economic activity.

Going forward, the Philippine economy faces uncertainty and challenges coming mainly from the external environment. However, the country's solid macroeconomic fundamentals as well as the adequate space for policy levers to pursue appropriate and timely response to possible shocks are expected to provide impetus for a sustained economic growth.

Source: Extracted from Bangko Sentral ng Pilipinas Report on Economic and Financial Developments, First Quarter 2017

Hong Kong

The Hong Kong economy grew at a slower pace in 2016 with real Gross Domestic Product (GDP) growth declining to 1.9% from 2.4% in 2015. Net exports were the main drag, weighed down by exports of services alongside weak inbound tourism. Domestic demand also showed slackened momentum, although it continued to provide the major support to overall GDP growth. The labour market remained broadly stable with the unemployment rate staying low at 3.3-3.4%. Consumer price inflation moderated further, attributable to easing pressures on domestic costs and external prices. Amid a volatile external environment and shifts in market sentiments, the asset markets recorded more fluctuations. In view of the renewed buoyancy in the residential property market, the Government introduced a new stamp duty measure in November.

The local foreign exchange and money markets continued to operate smoothly despite a turbulent external environment and higher US dollar interest rates. After some easing in January, the Hong Kong dollar spot exchange rate hovered near 7.75 thereafter. The Convertibility undertakings were not triggered during the year, and the Aggregate Balance and the outstanding exchange Fund paper combined remained virtually unchanged at around HK$1,200 billion. Following the US rate hike in mid-December, the HKMA Base Rate was adjusted upward from 0.75% to 1%. While remaining at relatively low levels, the Hong Kong dollar interbank interest rates and longer-dated bond yields picked up towards the end of the year, partly reflecting the movements in their US dollar counterparts. Total bank loans grew at a faster rate of 6.5% in 2016. Although the overall loan quality weakened slightly, the classified loan ratios were still very low.

Domestic demand showed moderated momentum in 2016. Despite the continued support from stable employment and earnings conditions, growth in private consumption slowed to 1.6%, partly reflecting heightened economic uncertainty. Government consumption also increased at a slightly slower rate of 3.3%. Gross domestic fixed capital formation continued to display large quarterly swings, culminating in a full-year contraction of 0.5%. The drag came mainly from private-sector machinery and equipment acquisition, which contracted for the third straight year amid unfavourable business prospects, while building and construction activities strengthened, along with the increase in housing commencement.

Despite some signs of stabilisation towards the end of 2016, Hong Kong's export performance remained lacklustre for the year. Exports of goods increased by 1.7% from a low base in 2015. Exports to the advanced economies remained sluggish, while exports to Mainland China, India, South Korea, Singapore and Taiwan performed relatively better compared to 2015, along with a stabilisation of regional trade flows. Partly reflecting the normalisation of retail sales from the extraordinary growth in earlier years, Hong Kong's exports of services contracted markedly by 3.1% in 2016. Imports of goods recouped some ground after a contraction in 2015, and imports of services grew further, owing in part to residents' interest to travel overseas. On a net basis, overall trade surplus shrank in 2016, making a negative contribution to GDP growth.

Inflationary pressures remained contained in 2016. After netting out the effects of the government's one-off relief measures, the underlying inflation rate edged down to 2.3% in 2016 from 2.5% in 2015. The inflation of the Composite Consumer price index (CCPI) rental component eased amid the feed-through of the earlier decline in fresh-letting private residential rentals. Import price inflation was restrained by soft global commodity prices and the strong Hong Kong dollar. Meanwhile, domestic cost pressures stayed moderate along with the steady growth in labour costs, as well as softened rental cost pressures, particularly in the retail segment.

Labour market conditions remained broadly stable in 2016, with labour supply and demand growing at a similar pace. Analysed by sector, labour market conditions in the tourism-related sectors worsened, while those in other sectors were largely stable. Overall, the seasonally adjusted unemployment rate edged up slightly to 3.4% from 3.3% in 2015. Given the stable labour market, labour earnings in nominal terms rose by 3.8% in the first three quarters, compared with 4.6% in 2015. Real labour earnings also rose by 0.9% in the first three quarters, compared with an increase of 1.5% in 2015.

The Hong Kong stock market was volatile in 2016. The Hang Seng index fell to a three-year low in February amid depreciation pressure in the renminbi and turbulence in the Mainland equity market. The local stock market recovered in March along with the solid gains in The US and other major stock markets. Although the UK's referendum on Brexit triggered market volatilities, sentiments improved quickly amid expectation of more gradual rate hikes by the US Federal Reserve and monetary easing in other major central banks. The Hang Seng index climbed to a year-high of 24,100 in September. However, the local stock market came under pressure again in the last quarter in response to the outcome of the US presidential election and expectations of a faster pace of US rate hikes. Overall, the Hang Seng index picked up slightly by 0.4% in 2016 following a fall of 7.2% in 2015. The average daily turnover declined to HK$66.9 billion from HK$105.6 billion in the previous year, and the overall equity fund raised from the local market contracted to HK$490.1 billion from HK$1,115.6 billion a year earlier.

Source: Extracted from Hong Kong Monetary Authority Annual Report 2016

2 STORAGE TANK INDUSTRY IN MALAYSIA

Definition and Segmentation

Storage tanks are containers used for the containment of gases, liquids and various other mediums for a period of time. Storage tanks are typically engineered to contain a specific medium, and is rarely used to hold a variety of contents due to the pressure differential of the contents. As such, storage tanks are made of various materials, including but not limited to metal, concrete, thermoplastic and reinforced-plastic, which are selected based on the usage and cost.

As storage tanks are engineered to contain a particular medium, it may be covered or uncovered, subject to the nature of the medium and the location of the storage tanks. Uncovered storage tanks are typically very large and more commonly termed as reservoirs, which are usually located in the rural areas; whereas covered storage tanks are commonly found in the urban areas and often come in various designs such as rectangular, cylindrical and spherical, and sizes ranging from as small as approximately 150 litres to as large as 15 million gallons.

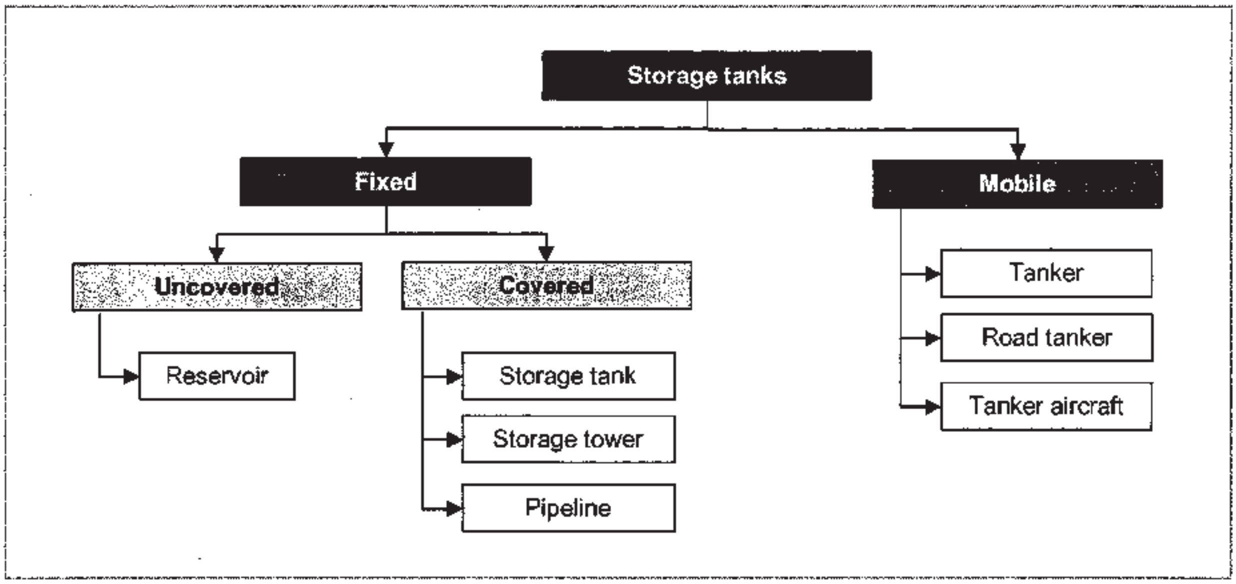
The content of the storage tanks and the location of the storage tanks also determines whether it should be located underground or aboveground, which are governed by different sets of regulations. These regulations are in place to govern areas such as the handling of a storage tanks, as well as the safety of the storage tanks which may be compromised due to leaks, spill or evaporation, to protect the vicinity in which the storage tanks are located.

In addition to being fixed at a specific location, storage tanks may also be mobile in terms of being specifically manufactured to be mounted unto vehicles, particularly trucks, which are commonly known as road tankers. Road tankers are generally used to transport various contents of variety of mediums, including petroleum, fuel, LPG and other hazardous and non-hazardous chemicals. Storage tanks may also be mobile in the form of ships which are commonly termed as tankers, and aircrafts which are commonly termed as tanker aircraft. Tankers are typically used to transport liquid or gas mediums such as crude oil, natural gases and chemicals; whereas tanker aircrafts are usually used for in-flight aircraft refuelling purposes.

CN Asia Corporation Berhad is primarily involved in the design, fabrication and installation of storage tanks, road tankers, pressure vessels, as well as provision of metal forming services for the oil and gas and petrochemical industries in Malaysia; and the fabrication and sales of LPG vessels and road tankers for the LPG industry in Hong Kong; and the road tankers for the sewerage treatment industry in the Philippines.

[The rest of this page is intentionally left blank]

Segmentation of the storage tank industry (Malaysia)



Note:
This list is not exhaustive.

Source: SMITH ZANDER

Industry Performance, Size and Growth

The storage tank industry in Malaysia is a growing industry, as storage tanks are used in a wide variety of industries, especially in the oil and gas industry, petrochemical industry and manufacturing industry. In Malaysia, the sales value of tanks, reservoirs and containers made of metal witnessed a compound annual growth rate ("CAGR") of 12.6% between 2010 and 2016. During the six (6)-year period, the sales value of manufactured tanks, reservoirs and containers made of metal grew from RM682.9 million in 2010 to RM1.4 billion in 2016.

In addition to the manufacture of storage tanks in the country, the country also witnessed a growth in the manufacture of bodies for motor vehicles, which comprises road tankers, trailer and semi-trailers. In 2016, the sales value of manufactured bodies for motor vehicles stood at RM680.9 million, growing at a healthy CAGR of 24.4% from RM184.1 million in 2010.

[The rest of this page is intentionally left blank]

Sales value of manufactured tanks, reservoirs and containers made of metal; and sales value of manufactured bodies for motor vehicles (Malaysia), 2010-2016

Year	Sales value of manufactured tanks, reservoirs and containers made of metal (RM '000)	Sales value of manufactured bodies for motor vehicles (RM '000)
2010	682,901	184,134
2011	882,264	399,377
2012	785,936	422,543
2013	716,796	533,125
2014	969,247	497,704
2015	1,055,244	551,742
2016	1,395,426	680,873
CAGR 2010 - 2016	**12.6%**	**24.4%**

Source: Department of Statistics Malaysia

[The rest of this page is intentionally left blank]

3 PRESSURE VESSEL INDUSTRY IN MALAYSIA

Introduction

A pressure vessel is a container engineered to contain gases or liquids at a significantly different pressure from the ambient pressure. As any failure in the design or operation of a pressure vessel could lead to fatality, various engineering authorities have put in place safety rules and codes to regulate the design, fabrication and operation of pressure vessels.

The first boiler and pressure vessel code was released by the American Society of Mechanical Engineers ("ASME") in 1914, called ASME Boiler and Pressure Vessel Code. A century later, the ASME Boiler and Pressure Vessel Code is adopted, in part or entirety, by most of the United States and Canada, and it has been translated to various languages for adoption in approximately 100 countries around the world. The ASME Boiler and Pressure Vessel Code plays an important role in the pressure vessel industry as it governs the safety of pressure vessels in regards to the design, fabrication, and inspection of boilers and pressure vessels, and nuclear power plant components during construction.

In Malaysia, an approval for the design of the unfired pressure vessel from the Department of Occupational Safety and Health, under the Ministry of Human Resources, is required prior to the fabrication, installation or usage of any unfired pressure vessel. The application for approval of the design may be made by the manufacturing company, installer, supplier or owner of the unfired pressure vessel.

CN Asia Corporation Berhad is principally involved in the design, fabrication, assembly and/or installation of storage tanks, pressure vessels and LPG vessels, as well as the provision of metal forming services for the downstream segment of the oil and gas and petrochemical industries in Malaysia, and the fabrication and sales of storage tanks, pressure vessels and LPG vessels for the LPG industry in Hong Kong and the sewerage treatment industry in the Philippines.

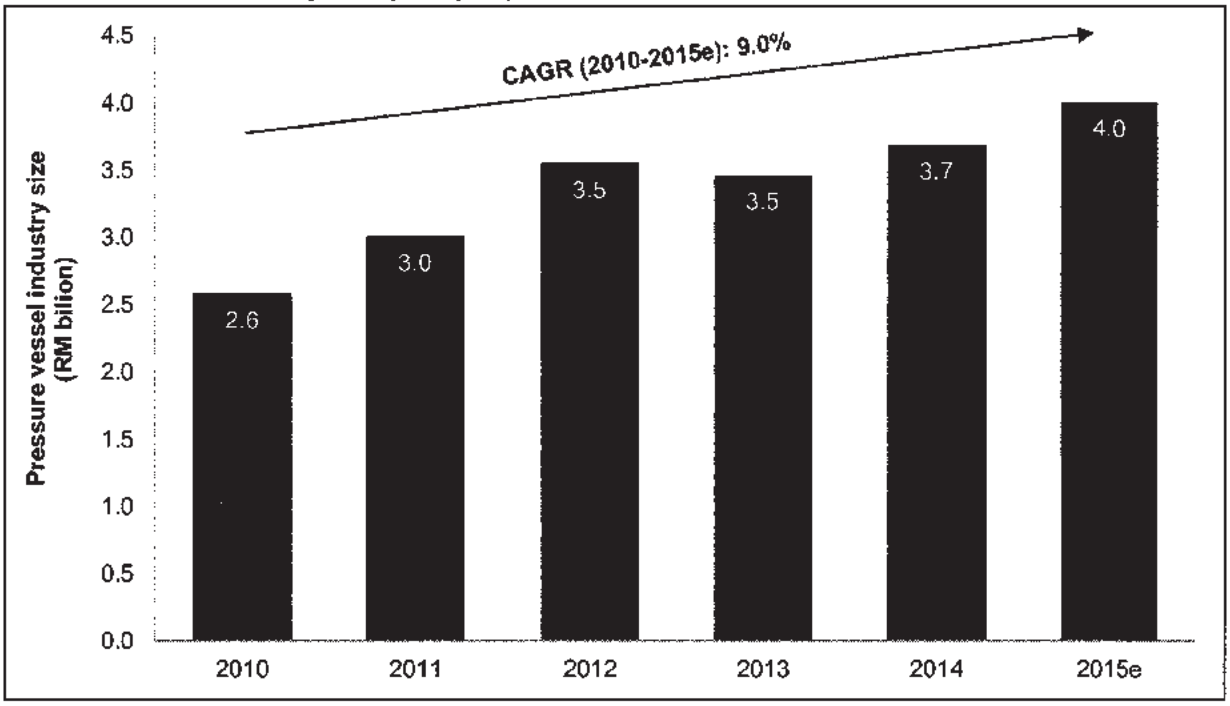
Industry Performance, Size and Growth

The pressure vessel industry size in Malaysia is computed based on revenues of companies licenced by the Department of Occupational Safety and Health Malaysia to fabricate pressure vessels.

Between 2010 and 2015, the pressure vessel industry in Malaysia illustrated a CAGR of 9.0%, growing from RM2.6 billion in 2010 to an estimated RM4.0 billion in 2015. The growth of the industry is expected to be driven by the growth in demand for petrochemical products and edible oil products from end-user industries and increase in downstream oil and gas activities driven by low prices of oil and gas.

[The rest of this page is intentionally left blank]

Pressure vessel industry size (Malaysia), 2010-2015e



Note:

1. *Industry size may include revenue derived from businesses other than fabrication of pressure vessels, and revenue from outside Malaysia.*
2. *e – estimate.*

Source: Suruhanjaya Syarikat Malaysia, SMITH ZANDER

[The rest of this page is intentionally left blank]

4 Oil and Gas and Petrochemical Industries in Malaysia

Definition and Segmentation

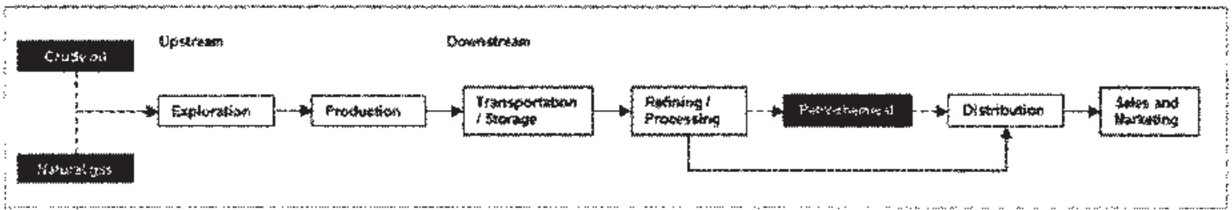
Crude oil and natural gases are hydrocarbons that are discovered under the seabed from oil and gas wells which are bored deep into earth's surface. The oil and gas industry can be segmented into two (2) segments, namely upstream and downstream. The upstream segment consists exploration and production activities, while the downstream segment consists transportation/storage, refining/processing, distribution, sales and marketing activities. Fully integrated oil and gas companies usually have interests in both the upstream and downstream segment, while other companies may concentrate on either the upstream or downstream segment.

Upstream exploration and production activities can be conducted off-shore (by deep drilling into the seabed of the ocean) or on-shore (by deep drilling into layers of soil on land) in search of crude oil and natural gases. Historically, oil and gas wells are discovered on-shore, but as technology developed over time, more oil and gas wells are discovered further and further away from land.

The downstream segment of the oil and gas industry begins with activities such as the transportation of crude oil from oil wells to refineries and natural gases from gas wells to processing plants by pipelines, or the temporal storage of crude oil and natural gases awaiting refining and processing in storage tank fields. The refining of crude oil refers to the conversion of crude oil into refined and usable finished products such as petrochemical, LPG, gasoline, diesel and asphalt. Likewise, the processing of natural gases in a chemical plant uses heat to remove water, impurities and hydrocarbons from the natural gases.

The refined oil, which are in liquid form, can be easily transported via tankers and pipelines. However, since the processed natural gases are not in liquid form, the gases can only be distributed via pipelines, unless the gas is converted into liquid form for transportation by tankers. The refined oil and natural gases are then distributed to end-users for use in power generation, cooking, heating and vehicle fuelling.

Segmentation and value chain of the oil and gas and petrochemical industries (Malaysia)



Source: SMITH ZANDER

On the back of its well-developed oil and gas industry, Malaysia has the necessary infrastructure and systems in place to promote the growth of the nation's petrochemical industry. Petrochemicals are chemical products derived from the refining or processing of crude oil or natural gas, which are activities within the downstream segment of the oil and gas industry. The two (2) most common classes of petrochemical products, sometimes known as 'primary petrochemicals', are olefins (including ethylene, propylene, butadiene) and aromatics (including benzene, toluene and xylene isomers). Olefins and aromatics are obtained either through the cracking of petroleum fractions in oil refineries or the steam cracking of natural gases in natural gas processing plants. Olefins are aromatics that are vital in the production of plastic, which is a material that is widely used in the modern world and has replaced many traditional materials, due to its versatility, ease of manufacture, imperviousness to water and low costs.

CN Asia Corporation Berhad's fabricated storage tanks and pressure vessels are mostly used in the downstream segment of the oil and gas industry as well as the petrochemical industry in Malaysia. As such, the growth in the downstream segment of the oil and gas industry as well as the petrochemical industry in Malaysia correlates with CN Asia Corporation Berhad's storage tank and pressure vessel business segment.

Industry Performance, Size and Growth

Malaysia's dependence on its rich natural resources has evolved over the years, ranging from tin, rubber, palm oil and, oil and gas. The nation's oil and gas industry began when oil was first discovered by Royal Dutch Shell plc ("Shell") in Sarawak in 1909 and production followed in the next year, which marks the beginning of a key contributing-industry to the Malaysian economy. The exclusive rights of oil and gas exploration and production were formerly granted by the state government to oil and gas companies, with a sum payable in terms of royalties and taxes by the companies. However, this state of affair ceased in 1975 with the introduction of the Petroleum Development Act, where Petroliam Nasional Berhad ("PETRONAS") became the sole custodian of the rights to explore and produce petroleum resources.

PETRONAS was founded in 1974 and was responsible for the development of Malaysia's oil and gas industry. Today, PETRONAS continues to play a significant role in the country's oil and gas industry by driving growth through the development of oil and gas resources as well as creating opportunities for local players across the industry's value chain while generating employment opportunities through the transfer of skills to the local population. Over the years, PETRONAS has progressed from focusing on just upstream activities to the entire downstream oil and gas activities, to become Malaysia's fully-integrated oil and gas multinational company.

As a regulator of Malaysia's oil and gas upstream activities, PETRONAS can award a Production Sharing Contract ("PSC") or Risk Sharing Contract ("RSC") to companies wishing to take part in upstream activities such as exploration, development and production. In the case of a PSC, companies are not allowed to recover costs incurred in the case of non-discovery. Therefore, a RSC was established as an alternative to PSC, which allows companies to be entitled to a rate of return that has been agreed upon non-discovery. The first PSC was awarded to Shell back in 1976, and has since signed approximately 150 PSCs with other oil and gas giants such as ExxonMobil Corp., Murphy Oil Corporation and JX Nippon Oil & Energy Co.

Malaysia's oil and gas downstream segment produces various grades of distillates, such as liquid petroleum gas, gasoline, kerosene, petroleum, diesel, asphalt, lubricating oils and greases, by five (5) major oil refineries – two (2) in Port Dickson, Negeri Sembilan; one (1) in Tangga Batu, Melaka; one (1) in Kertih, Terengganu; and one (1) in Kemaman, Terengganu. As at 2016, Malaysia's oil refinery capacity stood at approximately 730,000 barrels per day[1], where Shell Refining Co. (Federation of Malaysia) Berhad and PETRONAS collectively constituting more than 50% of the nation's refining capacity.

[1] *Source: Ministry of International Trade and Industry of Malaysia*

Major oil refineries (Malaysia)

Oil refineries	Location	Capacity (barrels per day)
Malaysia Hengyuan International Ltd	Port Dickson, Negeri Sembilan	156,000
Petron Malaysia Refining & Marketing Bhd	Port Dickson, Negeri Sembilan	88,000
PETRONAS Penapisan (Melaka) Sdn Bhd	Tangga Batu, Melaka	270,000
PETRONAS Penapisan (Terengganu) Sdn Bhd	Kertih, Terengganu	49,000
Kemaman Bitumen Company Sdn Bhd	Kemaman, Terengganu	50,000

Source: Companies' official website

Further down the downstream segment of the oil and gas industry are the distribution, and sales and marketing of petroleum and other related products. Malaysia's distribution and sales and marketing of petroleum products is dominated by local player such as Petronas, Petron and BHP, as well as foreign players such as Shell and Caltex.

Major petrol stations (Malaysia)

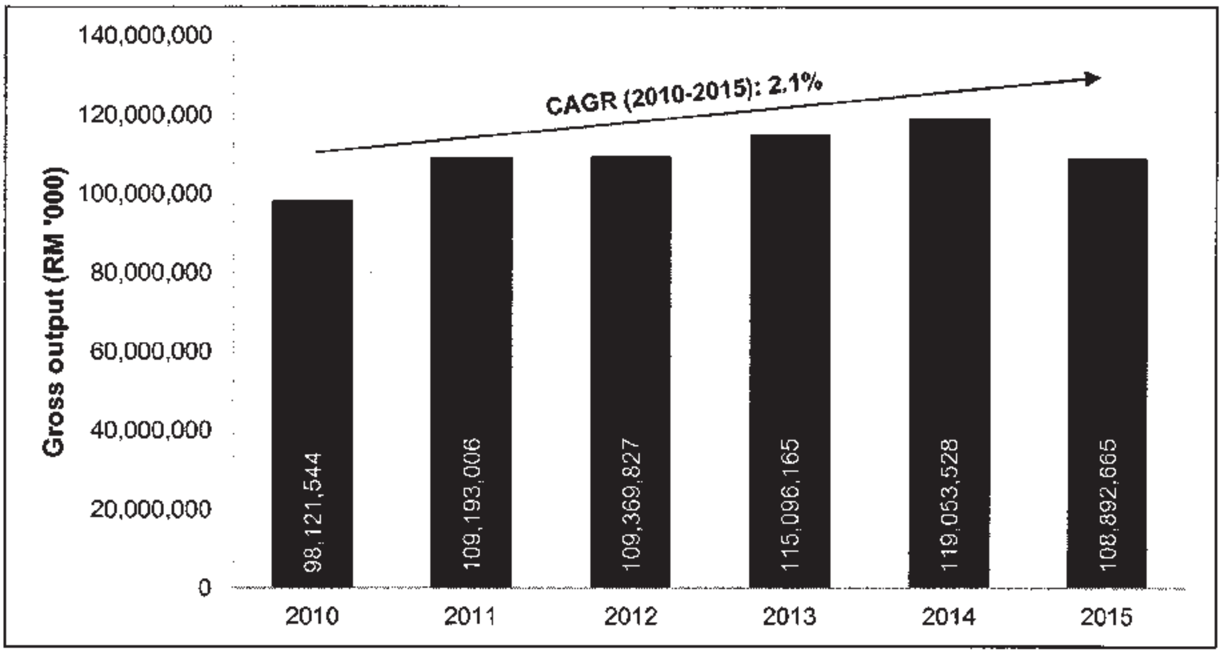
Name of company	Name of petrol station	Local or foreign	Number of petrol stations*
Petronas Dagangan Berhad	Petronas	Local	1,000
Shell Malaysia Trading Sdn Bhd	Shell	Foreign	950
Petron Malaysia Refining and Marketing Berhad	Petron	Local	580
Chevron Malaysia Limited	Caltex	Foreign	420
Boustead Petroleum Marketing Sdn Bhd	BHP	Local	360
		Total	**3,310**

Note:
** Number of petrol stations are estimates extracted from annual reports and company websites.*

Malaysia's oil and gas industry, as depicted by the gross output of the petroleum and gas mining industry, saw a growth in the period between 2010 and 2015 with a CAGR of 2.1% from RM98.1 billion in 2010 to RM108.9 billion in 2015. The growth in this industry is contributed by various factor such as the increased demand for petroleum and gas from end-user industries as well as the low oil prices which drives downstream activities.

[The rest of this page is intentionally left blank]

Gross output of the petroleum and gas mining industry (Malaysia), 2010-2015



Source: Department of Statistics Malaysia, SMITH ZANDER

The growth of the oil and gas industry in Malaysia has contributed to the growth of the petrochemical industry. There are three (3) major integrated petrochemical zones located in Kertih, Terengganu; Gebeng, Pahang and Pasir Gudang-Tanjung Langsat, Johor, and various other petrochemical plants located nationwide. Each of these three (3) zones are equipped with sygas, crackers and aromatic facilities to produce feedstock to the plastic and chemical-based industries in Malaysia. These three (3) integrated complexes offer centralised utilities, efficient storage services and a comprehensive network system, thus allowing for a steady supply of feedstock.

Major petrochemical zones (Malaysia)

Zone	Core products manufactured
Kertih Integrated Complex, Terengganu	Ethylene, propylene, para-xylene, benzene, syngas
Gebeng Integrated Complex, Pahang	Propylene, syngas
Pasir Gudang-Tanjung Langsat Integrated Complex, Johor	Ethylene, propylene, benzene, toluene, xylene, butadiene

Source: Department of Statistics Malaysia

In addition, there are other petrochemical plants in Malaysia including the ammonia and urea plants in Bintulu, Sarawak and Gurun, Kedah; the acrylonitrile butadiene styrene plant in Penang; the methanol plant in Labuan; and the nitrile-butadiene plants in Kluang, Johor. The presence of multinational petrochemical companies in Malaysia, such as BASF, BP, Dow Chemical, Eastman Chemical and Idemitsu Petrochemical denotes Malaysia's potential in the petrochemical industry.

As a result of the global financial crisis in 2008, there was a general slowdown in the local, regional and global economies which carried over to 2009. During the period, after reaching a high of USD133.87 per barrel in the previous month, global crude oil prices began its fall in August 2008 to USD41.58 in December 2008. Annual average global crude oil prices fell from USD97.64 per barrel in 2008 to

USD61.86 per barrel in 2009. In 2010, the global economy recovered which lead to a rise in crude oil prices to an annual average of USD79.64 per barrel. Crude oil prices continued to grow for the next few years to an annual average of USD111.97 per barrel in 2012.

Since July 2014, due to excess crude oil supply, crude oil prices fell dramatically from an average of USD106.98 per barrel to an all-time low of USD30.80 per barrel in January 2016. The fall in crude oil prices had adversely impacted many oil producing countries, including Malaysia. This adversely impacted the downstream oil and gas activities in Malaysia, and many industries serving the oil and gas industry was affected consequently. Nevertheless, the petrochemical industry remained robust as petrochemical companies that use oil and gas feedstock to make various plastic products benefited from the lower crude oil prices.

In 2016, 20 approved projects with total investments of RM24.7 billion were approved to produce petroleum and petrochemical products, of which 10 projects contributing RM16.6 billion are new projects.[2] Furthermore, Malaysia has 1,958 plastic companies in the business of the manufacturing of various plastic products from common plastic household products to specialised plastic products for the telecommunication industries in 2015, up from the 1,450 plastic manufacturers in 2009.[3] Thus, an increase in the number of plastic manufacturers in the country will create more demand for the supply of petrochemical products.

As part of the Petronas Refinery and Petrochemical Integrated Development project, a new petrochemical zone is currently in progress in Pengerang, Johor, and is estimated to be operational by 2019. The first phase which comprises the Pengerang Deepwater Petroleum Terminal project was completed in December 2014, and involved the construction of a storage capacity of approximately 1.3 million cubic metres and six (6) deepwater berths, with the capability of handling the storage, blending and distribution of crude oil, petroleum, chemical and petrochemical feedstock products and by-products. The second phase is currently in progress and involves the development, construction and operation of the facilities required for the handling, storage and distribution of crude oil, petroleum, chemical and petrochemical feedstock products and by-products to and from the Complex. In addition, the second phase also involves the construction of a storage capacity of approximately 2.1 million cubic metres and a deepwater jetty with 12 berths. Further, the development of the Pengerang Liquefied Natural Gas Terminal located in the Pengerang Integrated Petroleum Complex area, which comprises liquefied natural gas storage, loading and regasification facilities will further boost the oil and gas industry in Johor. The Pengerang Liquefied Natural Gas Terminal is expected to be completed in 2018.

Demand Conditions: Key Growth Drivers

Increasing demand for oil and gas and petrochemical products from end-user industries

The increasing demand for crude oil and natural gas is a key driver for upstream activities in Malaysia's oil and gas industry. Between 2010 and 2015, the demand for crude oil, as shown by the consumption of petroleum products, increased from 24,402 kilo tonne of oil equivalent ("ktoe") to 28,699 ktoe at a CAGR of 3.3%, while the consumption of natural gas increased from 6,254 ktoe to 9,567 ktoe at a CAGR of 8.9%[4]. The demand for crude oil is driven strongly by the transportation industry while the demand for natural gas is driven strongly by power generation and industrial activities. Presently, these end-user industries have limited sources of economically feasible, viable and cost-competitive options beyond crude oil and natural gas. Thus, the limited availability of alternatives will drive the demand for crude oil

[2] *Source: MIDA*
[3] *Source: MIDA*
[4] *Source: Energy Commission Malaysia*

and natural gas, thereby leading to an increase in the demand for industrial equipment such as storage tanks, pressure vessels and dish ends, to support the operations of the oil and gas industry.

The petrochemical segment serves the plastic and chemical-based industries in Malaysia, where in 2009, there are 1,450 plastics processing and manufacturing companies in operation, producing plastic products ranging from, among others, common household goods, parts and components for the electrical and electronics industry, parts and components for the automotive industry, office automation and packaging materials. In 2015, the number of plastic manufacturers in the country increased to 1,958. The increase is illustrated by Malaysia, a net exporter of plastic products, with total exports amounting to approximately RM12.9 billion in 2015. As the number of plastic manufacturers in the country increases, there will be growth in the petrochemical industry, which will then lead to a demand for more industrial equipment such as storage tanks, pressure vessels and dish ends in order to support the day-to-day operations of the petrochemical industry.

Low prices of oil and gas drives downstream oil and gas activities

Prices of Brent crude are volatile, however it has been on a continuous rise since the 1990s. In 1990, Brent prices were at an average of approximately USD22 per barrel. Since then, oil prices have been increasing, reaching an average of USD97.64 per barrel in 2008 which were fuelled by higher demands from rapidly industrializing countries (such as the People's Republic of China and India) and supply disruptions as a result of unrests in oil producing countries. The following year, Brent oil saw a drop in prices to an average of USD61.86 per barrel. This drop was prompted by the bubble-bursting sell-off contributed by the lifting of an executive order which banned offshore oil drilling in the United States. In addition, Brent prices were also affected by various state of affairs happened in that year which pushed the prices lower, including the resilient USD and weaker economic conditions worldwide. After the brief dip, oil prices have since increased and at 2012, were hovering over USD100 per barrel.

Since then, oil prices have remained at approximately USD100 a barrel until mid-2014. From mid-2014 onwards, Brent prices have been steadily dropping, reaching USD30.80 a barrel in January 2016. The decrease in Brent prices was contributed by various factors include oversupply of crude oil in addition to the decrease in demand for crude oil. A decrease in crude oil prices discourages investment in the oil and gas upstream segment such as exploration and production activities, but encourages the downstream segment of the oil and gas industry. The downstream segment consists of various industries including the petrochemical and plastic industries, which use oil and gas feedstock to produce various products as well as end-products. These companies will benefit from the lower crude oil prices and will chance this opportunity to increase production. As the petrochemical industry grows, the demand for industrial equipment such as storage tanks, pressure vessels and dish ends increases, in order to support the day-to-day operations of the petrochemical industry.

[The rest of this page is intentionally left blank]

5 THE LPG INDUSTRY IN HONG KONG AND THE SEWERAGE TREATMENT INDUSTRY IN PHILIPPINES

Introduction

CN Asia Corporation Berhad's fabricated LPG vessels and road tankers are largely used in the LPG industry in Hong Kong and the sewerage treatment industry in the Philippines. As such, the growth in the LPG industry in Hong Kong as well as the sewerage treatment industry in the Philippines correlates with CN Asia Corporation Berhad's LPG vessel and road tanker business segment.

LPG

LPG, sometimes referred to as butane or propane, is a flammable hydrocarbon gas, which is produced as a by-product from crude oil refining or natural gas processing. It is widely used as fuel for heating and cooking purposes, as well as automotive propulsion. LPG's versatility allows it to be distributed in gas form through a network of pipelines, or stored as liquid in aboveground or underground bulk storage tanks or portable cylinders. LPG in storage tanks and portable cylinders are typically in liquid form as a result of compression, so as to take up approximately 200 times less space than if left in gas form, yet LPG in liquid form contains an astounding amount of energy for usage. As such, despite the cost of procuring LPG being relatively higher than ordinary gas, the portability and convenience of LPG qualifies it to be the choice gas for use, especially in remote places where the supply of electricity and gas is unavailable or interrupted.

Over the years, LPG has been chosen as one of the 'green' alternatives to pollutant fuel such as petroleum and diesel, due to its lower carbon monoxide emission. However, as much as it is cleaner, more portable and more convenient, LPG is inevitably flammable and as such various measures have been taken by different countries to ensure its safety.

In Hong Kong, LPG is classified as a category two (2) dangerous goods, and is under the jurisdiction of the nation's gas authority, the Electrical and Mechanical Services department ("EMSD"). The EMSD is proactive in establishing gas safety standards and implementing safe working practices in the importation, manufacture, storage, transport, supply and use of town gas, LPG and natural gas. Specifically, the EMSD is responsible for the approval of LPG road tankers as well as the monitoring and regulating of storage, transportation and distribution network of LPG throughout Hong Kong.

Sewerage treatment

Sewerage treatment refers to treatment of wastewater. Wastewater can be broadly divided into three (3) categories, namely domestic wastewater, industrial wastewater and surface runoff. Domestic wastewater, also commonly referred to as sewage, originates from toilets, bathrooms, laundries and kitchens in residential and commercial properties which are contaminated with human and less hazardous chemical waste. Industrial wastewater is the resultant waste which are discharged from manufacturing processes and farming activities, typically hazardous and more polluting requiring a more complex treatment process. Surface runoff is water that flows on the ground surface which has been washed away by the rain, sometimes carrying soil, road debris or rubbish caused by littering.

Wastewater, particularly untreated wastewater, is one (1) of the main causes of pollution as it is usually circulated back into the environment. Therefore, wastewater management is crucial to negate the adverse effects of untreated water to the environment and public health. Wastewater management comprises four (4) components, specifically generation, collection, treatment and disposal/reuse. Wastewater collection refers to the transportation of wastewater from the source of generation to the treatment facility, either by means of a network of sewerage pipes or road tankers. Treatment denotes separation of pollutant from non-pollutant so that the clean water may be recycled back into the environment. Disposal/reuse is the organised riddance of treated effluent or sludge back into the environment. All four (4) components can be located on-site within the wastewater generation vicinity serving a small cluster of properties; or off-site where collection, treatment and disposal/reuse is away from the source of waste generation.

In the Philippines, industrial wastewater is regulated by the Environmental Management Bureau and industrial properties are required to treat wastewater through the installation of wastewater treatment facility at the industrial premises. For domestic wastewater, the Clean Water Act 2004 requires highly urbanised cities to provide sewerage and septage services to minimise the adverse effects of domestic wastewater discharges on the nation's water quality and water resources. Thus, the National Sewerage and Septage Management Program ("the NSSMP") was prepared with a goal to improve water quality and to protect population's health in urban areas of the Philippines by 2020. The Philippine's Department of Public Works and Highways and National Economic and Development Authority are responsible for the planning and leading the implementation of the NSSMP, while the local government units are responsible for the development, implementation and management of projects under the NSSMP in their respective jurisdictions.

The NSSMP plans to achieve various targets by 2020 including developed sewerage systems for all 17 highly urbanised cities and developed septage management systems for other local government units; approximately 43.6 million persons will have access to septage treatment facilities and approximately 3.2 million will have access to sewage treatment facilities; invested PhP 26.3 billion in sanitation improvement projects; and 346 million kilograms of biological oxygen demand is diverted from the environment annually as a result of the NSSMP.

Industry Performance, Size and Growth

LPG Industry in Hong Kong

The road tanker industry, especially LPG road tankers, is growing in light of the increasing number of LPG vehicles on the road and the number of LPG refilling stations.

In Hong Kong, LPG is imported by sea and stored at five (5) terminals on Tsing Yi island awaiting distribution. The distribution is carried out in two (2) methods, by pipelines directly to buildings or by LPG road tankers to filling stations. As at June 2017, there were 67 LPG filling stations in operation in Hong Kong and these LPG filling stations could either be standalone LPG filling stations or petroleum- or diesel-shared filling stations. These LPG filling stations are operated by oil and gas multinationals such as Shell, Exxonmobil and Caltex, as well as local operators such as Sinopec and PetroChina.

Number of LPG filling stations (Hong Kong), 2002 - 2017

	Number of LPG filling stations
2002	41
2017[5]	67
CAGR 2002 - 2017	**3.3%**

Source: Electrical and Mechanical Services Department of the Government of the Hong Kong Special Administrative Region

[5] *Based on the data last revised on 5 June 2017.*

In 1999, the LPG Vehicle Scheme was introduced in Hong Kong to reduce pollutant emissions from vehicles. Under that Scheme, diesel-fuelled taxis and buses are replaced with LPG. This scheme has since been completed, and as at the end of 2016, 18,145 (99.9%) taxis and 3,119 (71.7%) public-light buses in Hong Kong are fuelled by LPG. This is in contrast to the situation in 2002, where there were 16,800 LPG-fuelled taxis and 307 LPG-fuelled buses.

Number of public transportation vehicles running on LPG (Hong Kong), 2002 – 2016

	Taxis	Public-light buses
2002	16,800	307
2016	18,145	3,119
CAGR 2002 - 2016	**0.6%**	**18.0%**

Source: Transport Department of the Government of the Hong Kong Special Administrative Region

Thus, as the number of public transportation vehicles running on LPG in the country increases, there will be more demand for more LPG filling station. Consequently, the wider LPG distribution network, in terms of the increased number of LPG filling stations, will then lead to a demand for more LPG road tankers to support the transportation of LPG from the terminals to the LPG filling stations.

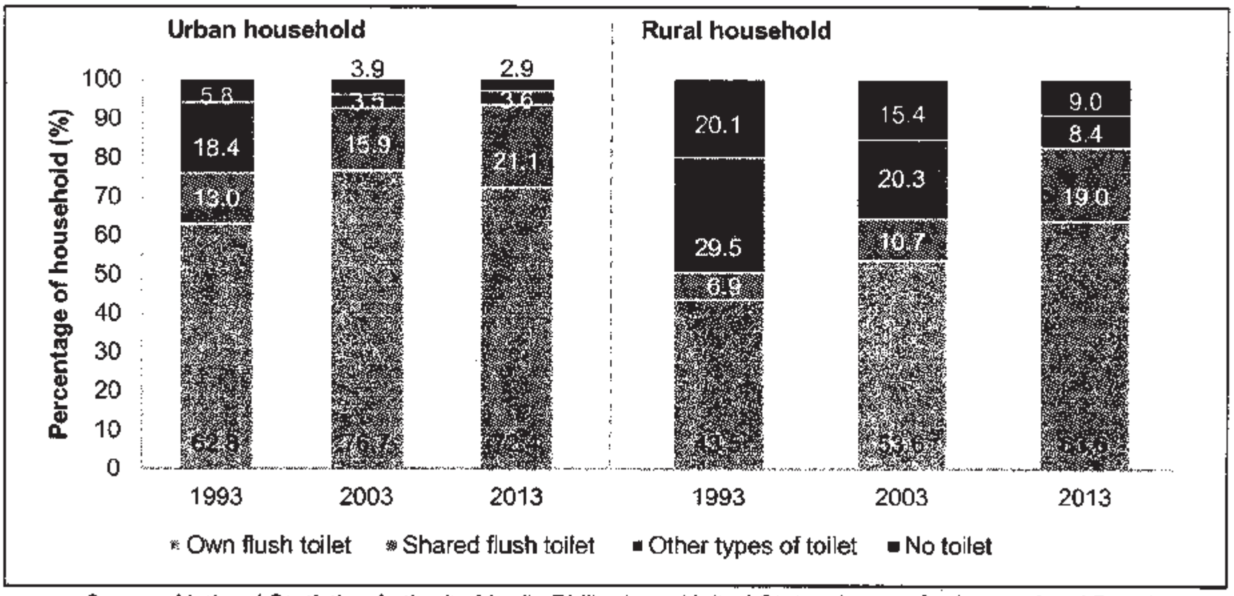
Sewerage Treatment Industry in the Philippines

Access to safe water supply and sanitation services are essential for the population's wellbeing and a cleaner environment, as well as a country's growth and economic development. However, in the Philippines, the annual budget allocations for the improvement and expansion of the accessibility to safe water and sanitation services is inadequate. As a result, there is a disparity between the urban and rural areas in the Philippines, with most of the funding reserved for use in the urban areas, particularly the country's capital, Manila, while the rural areas are left with little to no funding.

In 1993, the inequality in the accessibility to sanitation services, i.e. toilet facilities, is apparent in the Philippines, where 75.8% of the urban households have access to flush toilet facilities but only half (50.4%) of the rural households have access to flush toilet facilities. Nevertheless, sanitation services in the country have improved over the past 20 years, as depicted by the 93.5% of the urban households with access to flush toilet facilities in 2013, in comparison to the 82.6% of the rural households in the same year. At the same time, over the period between 1993 and 2013, the percentage of urban households with no access to toilet facilities have reduced from 5.8% to 2.9%, while rural households saw a decrease from 20.1% to 9.0% over the same period.

[The rest of this page is intentionally left blank]

Type of household sanitation facility (Philippines), 1993, 2003 and 2013



Source: National Statistics Authority Manila Philippines, United States Agency for International Development

As the Philippines continues to develop and have greater access to funding for the improvement and expansion of the accessibility to sanitation services, the country will be able to achievess its target of nationwide safe sanitation coverage by 2028, which was expressed in the Philippine Sustainable Sanitation Roadmap 2010 ("Roadmap"). This Roadmap serves as a guide for national and local agencies in the development and implementation of policies and programs related to providing a safe and sustainable sanitation services to the population of the Philippines.

Thus, as the number of households in the Philippines with access to sanitation services increases, there will be an increase in the number of septic tanks and pit latrines, as both of these types of toilets have the lowest cost method of reducing open defecation. Consequently, the increase in the number of septic tanks and pit latrines will then lead to a demand for more sewage road tankers to support the collection and transportation of sewage from residential properties for onward treatment or disposal.

[The rest of this page is intentionally left blank]

1. OVERVIEW

The core activities undertaken by the Group can be summarised as follows:

(i) Design, fabrication and installation of:

(a) storage tanks;

(b) pressure vessels;

(c) LPG vessels;

(ii) Design, fabrication and assembly of storage tanks for road tankers; and

(iii) Provision of metal forming services.

The primary group of customers the Group serves is in oil and gas, petrochemical and civil and structural steel construction industries. In addition, the Group also serves customers from other industries including sewerage, power generation and food and beverage.

As a result of the global financial crisis in 2008, there was a general slowdown in the local, regional and global economies which carried over to 2009. During the time, global crude oil prices began to fall in August 2008 after reaching a high of USD133.87 per barrel in July 2008. Annual average global crude oil prices fell from USD97.64 per barrel in 2008 to USD61.86 per barrel in 2009. This affected many industries, including the steel fabrication industry which the Group operates in, as well as the oil and gas industry which the Group serves.

The Group experienced reduction in revenue since FYE 2008 due to overall slowdown in demand for storage tanks, pressure vessels and road tankers and began suffering losses from FYE 2010 until FYE 2015. As a result of these losses, the Group did not have sufficient operating cash flow to finance high capital outlay required in several major projects it was keen to participate in, and undertaking these projects would have posed high financial and operational risks for the Group. Since 2008, the Group's cash and cash equivalents has been in a negative position and the accumulated losses were RM31.80 million as at 31 December 2015. In order to minimise the Group's risk exposure, the Group was more selective in undertaking projects with favorable collection terms from 2008 to 2015.

During 2015 and 2016, the Group had implemented several initiatives to strengthen its financial position as well as to improve profit margins and return to profitability. These initiatives include:

(i) The Disposals, as set out in Section 2.2.1(i) of this Circular;

(ii) The cost reduction initiatives, as set out in Section 2.2.1(ii) of this Circular; and

(iii) The business expansion plans, as set out in Section 2.2.1(iii) of this Circular.

Resulting thereto, based on the audited consolidated financial statements for FYE 2016 and unaudited consolidated financial statements for 3-month FPE 31 March 2017 ("FPE 2017"), the Group had recorded PAT, eliminated its current liabilities position and had a positive operating cash flow.

The ensuing sections sets out the historical financial information and commentary on the Group from FYE 2008 up to FYE 2016 and FPE 2017.

The consolidated financial statements for the FYE 2008 to FYE 2011 are prepared in accordance with the Financial Reporting Standards in Malaysia and the consolidated financial statements for the for FYE 2012 to FYE 2016 and FPE 2017 are prepared in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards.

2. HISTORICAL FINANCIAL INFORMATION

2.1 CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

The following table set out the audited consolidated statements of profit or loss and other comprehensive income from FYE 2008 to FYE 2016 and unaudited FPE 2017.

	Audited									Unaudited	
	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FPE 2016	FPE 2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	28,681	21,797	14,624	13,559	20,393	18,415	15,593	13,114	18,745	5,337	4,489
Cost of sales	(24,256)	(18,636)	(14,604)	(14,143)	(17,860)	(15,471)	(15,846)	(14,438)	(13,767)	(4,573)	(3,229)
Gross profit/(loss) ("GP/(GL)")	4,425	3,161	20	(584)	2,533	2,944	(253)	(1,324)	4,978	764	1,260
Other income	279	306	5	208	8	32	324	86	22,204	-	280
Administrative and other expenses	(3,435)	(2,971)	(3,547)	(3,107)	(3,690)	(3,081)	(3,599)	(4,297)	(3,495)	(1,071)	(956)
Finance costs	(576)	(381)	(456)	(503)	(408)	(621)	(710)	(735)	(583)	(192)	(4)
Profit/(Loss) from operations	693	115	(3,978)	(3,986)	(1,557)	(726)	(4,238)	(6,270)	23,104	(499)	580
Share of result of an associate	(10)	(22)	(1) -	(2) (21)	1	(3) -	(3) -	(14)	(4) -	-	-
PBT/(LBT)	683	93	(3,978)	(4,007)	(1,556)	(726)	(4,238)	(6,284)	23,104	(499)	580
Tax income/(expense)	6	7	7	-	-	-	-	-	(1,057)	-	-
PAT/(LAT)	689	100	(3,971)	(4,007)	(1,556)	(726)	(4,238)	(6,284)	22,047	(499)	580
Other comprehensive income	37	-	(53)	48	(23)	6	88	85	79	36	(5)
Total comprehensive income/ (expense)	**726**	**100**	**(4,024)**	**(3,959)**	**(1,579)**	**(720)**	**(4,150)**	**(6,199)**	**22,126**	**(463)**	**575**

	Audited									Unaudited	
	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FPE 2016	FPE 2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
PAT/(LAT) attributable to:											
Equity holders of the Company	689	100	(3,971)	(4,007)	(1,556)	(726)	(4,238)	(6,284)	22,047	(499)	580
Total comprehensive income/ (expense) attributable to:											
Equity holders of the Company	726	100	(4,024)	(3,959)	(1,579)	(720)	(4,150)	(6,199)	22,126	(463)	575
Earnings/(Loss) before interest, depreciation, amortisation and taxation ("EBITDA/(LBITDA)")	2,679	1,910	(2,218)	(2,252)	101	1,031	(2,313)	(4,459)	24,581	(58)	772
GP/(GL) margin (%)	15.4	14.5	0.1	(4.3)	12.4	16.0	(1.6)	(10.1)	26.6	14.3	28.1
EBITDA/(LBITDA) margin (%)	9.3	8.8	(15.2)	(16.6)	0.5	5.6	(14.8)	(34.0)	131.1	(1.1)	17.2
PBT/(LBT) margin (%)	2.4	0.4	(27.2)	(29.6)	(7.6)	(3.9)	(27.2)	(47.9)	123.3	(9.3)	12.9
PAT/(LAT) margin (%)	2.4	0.5	(27.2)	(29.6)	(7.6)	(3.9)	(27.2)	(47.9)	117.6	(9.3)	12.9
Effective tax income/ (expense) (%)	0.9	7.5	0.2	-	-	-	-	-	(4.6)	-	-
Number of shares in issue ('000)	45,383	45,383	45,383	45,383	45,383	45,383	45,383	45,383	45,383	45,383	45,383
Net EPS/(LPS) (Sen)*	1.52	0.22	(8.75)	(8.83)	(3.43)	(1.60)	(9.34)	(13.85)	48.58	(1.10)	1.28

Note:

* The basic and diluted net EPS/(LPS) is calculated based on the PAT/(LAT) attributable to equity holders for the respective financial years divided by the number of shares in issue. There were no dilutive potential ordinary shares which were outstanding for the financial years under review.

(1) In FYE 2010, there was no share of results from PICN Engineering Sdn Bhd ("PICN"), the associate company of CN Asia as the Group records the share of PICN's losses to the extent of its investments in PICN.

(2) In FYE 2011, the Group had increased its investment in PICN by RM49,000 and as such, had recorded a share of PICN's losses.

(3) In FYE 2013 and FYE 2014, the share of profits from PICN which were minimal at RM149 and RM156, respectively.

(4) In FYE 2016, the Group had disposed 29% equity interest in PICN and hence recorded as other investment in the audited financial statements for FYE 2016.

2.2 STATEMENTS OF FINANCIAL POSITION

	Audited									Unaudited	
	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FPE 2016	FPE 2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS											
Non-current Assets											
Property, plant and equipment	32,693	31,721	30,605	29,941	28,169	27,694	27,494	26,163	11,945	25,991	11,767
Intangible assets	213	131	94	56	19	-	-	-	-	-	-
Investment property	380	380	380	380	380	-	-	-	-	-	-
Investment in an associate	22	-	-	28	30	30	30	16	-	16	-
Goodwill on consolidation	136	136	136	77	77	77	77	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	685	-	685
	33,444	32,368	31,215	30,482	28,675	27,801	27,601	26,179	12,630	26,007	12,452
Current Assets											
Inventories	8,289	5,186	5,686	3,034	4,155	4,956	3,963	3,915	2,777	2,443	3,552
Trade receivables	6,966	2,899	2,725	4,992	2,922	3,299	3,531	2,036	1,083	1,466	2,946
Amount due from contract customers	-	2,784	1,337	293	1,075	3,439	1,938	708	-	658	-
Other receivables, deposits and prepayments	614	553	518	794	625	693	807	278	727	301	583
Amount owing by an associate	-	60	52	-	-	-	-	-	-	-	-
Current tax asset	63	63	63	63	63	42	6	6	6	6	6
Fixed deposits with licensed banks	-	200	205	211	218	224	231	-	25,800	-	22,653
Cash and bank balances	2,626	2,498	1,675	828	1,014	628	389	421	2,951	302	1,076
Total current assets	18,558	14,243	12,261	10,215	10,072	13,281	10,865	7,364	33,344	5,176	30,816
Non-current asset classified as held for sale	-	-	-	-	-	380	-	-	-	-	-
Total Assets	**52,002**	**46,611**	**43,476**	**40,697**	**38,747**	**41,462**	**38,466**	**33,543**	**45,974**	**31,183**	**43,268**

	Audited									Unaudited	
	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FPE 2016	FPE 2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
EQUITY AND LIABILITIES											
Equity attributable to owners											
Share capital	45,383	45,383	45,383	45,383	45,383	45,383	45,383	45,383	45,383	45,383	48,874
Share premium	3,492	3,492	3,492	3,492	3,492	3,492	3,492	3,492	3,492	3,492	-
Translation reserve	37	37	(16)	31	8	14	102	187	265	223	261
Accumulated losses	(11,115)	(11,014)	(14,986)	(18,992)	(20,548)	(21,273)	(25,511)	(31,796)	(9,748)	(32,295)	(9,168)
	37,797	37,898	33,873	29,914	28,335	27,616	23,466	17,266	39,392	16,803	39,967
Non-current Liabilities											
Deferred tax liabilities	15	7	-	-	-	-	-	-	-	-	-
Borrowings	982	344	213	87	49	418	489	396	299	371	273
	997	351	213	87	49	418	489	396	299	371	273
Current Liabilities											
Trade payables	6,926	2,215	2,213	1,595	2,040	1,531	1,887	2,028	1,772	1,639	1,976
Other payables and accruals	347	274	794	748	426	657	595	1,940	2,798	1,105	551
Amount due to an associate	-	-	-	49	49	60	56	34	-	34	-
Provision for taxation	-	-	-	-	-	-	-	-	391	-	391
Borrowings	5,935	5,873	6,383	8,304	7,848	11,180	11,973	11,879	1,322	11,231	110
	13,208	8,362	9,390	10,696	10,363	13,428	14,511	15,881	6,283	14,009	3,028
Total Liabilities	14,205	8,713	9,603	10,783	10,412	13,846	15,000	16,277	6,582	14,380	3,301
Total Equity and Liabilities	**52,002**	**46,611**	**43,476**	**40,697**	**38,747**	**41,462**	**38,466**	**33,543**	**45,974**	**31,183**	**43,268**

3. REVIEW OF RESULTS OF OPERATIONS

3.1 REVENUE OVERVIEW

The Group's revenue is derived mainly from manufacturing business which consists of manufacturing of tanks and related products, specialised engineering works and fabrication works. Major products and services under the Group’s manufacturing business include manufacturing of LPG vessels, tanks, road tankers and pressure vessels as well as metal forming services.

Chip Ngai Engineering Works Sdn Bhd, a wholly-owned subsidiary of the Group, was the main contributor to the Group's revenue for the financial years under review, contributing approximately 99% of the Group's revenue.

The Group's revenue is recognised upon the acceptance of goods delivered to customers and when the outcome of the transaction can be estimated reliably. In the event the outcome of the transaction could not be estimated reliably, revenue is recognised up to the extent of the expenses incurred that are recoverable.

3.1.1 COMMENTARY ON REVENUE

(i) Overview of revenue from the FYE 2008 to FYE 2016 AND FPE 2017

The Group's total revenue decreased in FYE 2009 from RM28.68 million in FYE 2008 to RM21.80 million in FYE 2009. The decline in revenue was mainly due to lower orders for tanks from PT Shell Indonesia following the softening in oil and gas industry coupled with the completion of several local pressure vessel jobs in FYE 2008.

The customers of CN Asia had deferred major capital spending due to the softer economic condition in 2010, resulting in lesser projects awarded to the Group. This has led to the decline in revenue in FYE 2010 by RM7.18 million to RM14.62 million.

In FYE 2011, revenue decreased by RM1.06 million to RM13.56 million following the completion of a road tanker contract to their China client, New Cosmos (HK) Ltd in FYE 2010. The Group did not have sufficient operating cash flow to finance high capital outlay required in several major projects it was keen to participate in and the Group was more selective in undertaking projects with favorable collection terms.

In FYE 2012, the Group recorded an increase in revenue by RM6.83 million to RM20.39 million. The increase in revenue was mainly attributed to a spike in orders from new local customers for the supply of pressure vessels and road tankers.

In FYE 2013, revenue decreased by RM1.97 million to RM18.42 million. This was mainly attributed to ceased orders from PT Shell Indonesia due to the change in requirements for awarding contract by the said customer, where the Company was required to establish a fabrication facility in Indonesia to comply with regulatory requirements. The Group did not proceed, due to non-committal orders from PT Shell Indonesia and high capital investment requirements. Resulting thereto, the Group was not able to continue to tender for projects for this customer.

In June 2014, global oil prices began plummeting, resulting in lower capital expenditure in the oil and gas industry which led to fewer jobs awarded to the Group. Consequently, revenue declined by RM2.82 million to RM15.59 million in FYE 2014.

In FYE 2015, the Group's revenue declined further by RM2.48 million to RM13.11 million in FYE 2015 due to decrease in sales orders from customers within oil and gas industry as a result of the continued softening of oil and gas activities.

In FYE 2016, the Group's revenue grew by RM5.64 million to RM18.75 million mainly due to increase in export revenue for supply of LPG vessels to Hong Kong.

In FPE 2017, the Group's revenue decreased by RM0.85 million from RM5.34 million in FPE 2016 to RM4.49 million in FPE 2017 due to deferred export orders for supply of LPG vessels to Hong Kong.

(ii) Analysis of revenue by business segments

The table below sets out the breakdown of revenue by business segments for the respective financial years under review:

	Audited																		Unaudited			
	FYE 2008		FYE 2009		FYE 2010		FYE 2011		FYE 2012		FYE 2013		FYE 2014		FYE 2015		FYE 2016		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Manufacturing[1]	28,451	99.2	21,604	99.1	14,588	99.8	13,501	99.6	20,146	98.8	18,374	99.8	15,564	99.8	13,100	99.9	18,745	100.0	5,337	100.0	4,489	100.0
Other services[2]	230	0.8	193	0.9	36	0.2	58	0.4	247	1.2	41	0.2	29	0.2	14	0.1	-	-	-	-	-	-
	28,681	**100.0**	**21,797**	**100.0**	**14,624**	**100.0**	**13,559**	**100.0**	**20,393**	**100.0**	**18,415**	**100.0**	**15,593**	**100.0**	**13,114**	**100.0**	**18,745**	**100.0**	**5,337**	**100.0**	**4,489**	**100.0**

Notes:

(1) Manufacturing of tanks and related products, engineering works and fabrication works.
(2) Repairing and renting of transportable containers for hazardous chemicals.

For the past financial years, the segmentation of revenue by manufacturing and other services is consistent, whereby revenue was mainly generated from the manufacturing segment while revenue from other services accounts for less than 2% of the revenue.

(iii) Analysis of revenue by geographical areas

The table below sets out the breakdown of revenue by geographical segments for the respective financial years under review:

	Audited																		Unaudited			
	FYE 2008		FYE 2009		FYE 2010		FYE 2011		FYE 2012		FYE 2013		FYE 2014		FYE 2015		FYE 2016		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Export	15,706	54.8	13,829	63.4	10,606	72.5	5,435	40.1	6,429	31.5	5,039	27.4	3,350	21.5	1,632	12.4	6,162	32.9	1,396	26.2	235	5.2
Local	12,975	45.2	7,968	36.6	4,018	27.5	8,124	59.9	13,964	68.5	13,376	72.6	12,243	78.5	11,482	87.6	12,583	67.1	3,941	73.8	4,254	94.8
	28,681	**100.0**	**21,797**	**100.0**	**14,624**	**100.0**	**13,559**	**100.0**	**20,393**	**100.0**	**18,415**	**100.0**	**15,593**	**100.0**	**13,114**	**100.0**	**18,745**	**100.0**	**5,337**	**100.0**	**4,489**	**100.0**

Overview:

From FYE 2008 to FYE 2010, revenue from overseas customers contributed between 54.8% to 72.5% of the Group's revenue. However, from FYE 2011 to FYE 2015, there is a shift in revenue contribution whereby the Group saw decreasing trend in revenue contribution from overseas customers from 40.1% to 12.4%. However, for FYE 2016, there was an increase in the revenue contribution from overseas customers to 32.9%. For FPE 2017, revenue from export segment decreased to 5.2% from 26.2% in FPE 2016.

Commentary on export revenue

In FYE 2008, the Group recorded export revenue of RM15.71 million. However, in FYE 2009, export revenue decreased by RM1.88 million due to lower orders of tanks from PT Shell Indonesia by approximately RM4.50 million. However, the decrease was cushioned by the increased orders for the supply of pressure vessels from NEM b.v. in Netherlands amounting to RM2.63 million.

In FYE 2010, export revenue further declined by RM3.22 million following the completion of pressure vessels project to NEM b.v. in FYE 2009. In FYE 2011, export revenue decreased by RM5.17 million following the completion of major jobs, including New Cosmos (HK) Ltd for road tanker project and Draeger Safety Asia Pte Ltd in Singapore for pressure vessels project as well as reduced orders from PT Shell Indonesia for tanks.

In FYE 2012, the Group secured an order amounting to RM4.24 million to supply pressure vessels to a trader in Brunei. The delivery was completed over FYE 2012, FYE 2013 and FYE 2014. This has led to an increase in export revenue for FYE 2012.

In FYE 2013, the decline of export revenue from RM6.43 million in FYE 2012 to RM5.04 million in FYE 2013 was due to ceased orders from PT Shell Indonesia.

In FYE 2014, the export revenue decreased by RM1.69 million to RM3.35 million after the completion of the supply pressure vessels to a trader in Brunei. The decrease was compensated by a new order to supply pressure vessels to Singapore for Master Tech Diving Services Pte Ltd.

In FYE 2015, export revenue declined by RM1.72 million following the completion of a large order to supply pressure vessels to Brunei Shell Petroleum Co Sdn Bhd and Master Tech Diving Services Pte Ltd.

In FYE 2016, export revenue increased by RM4.53 million mainly attributable to increased orders for LPG vessels from Hong Kong by RM4.32 million.

In FPE 2017, the decline in export revenue from RM1.40 million in FPE 2016 to RM0.24 million was due to deferred in export orders for LPG vessels to Hong Kong by RM0.79 million and the completion of an export order to supply pressure vessels to Singapore amounting to RM0.37 million in FPE 2016.

Commentary on local revenue

Local revenue for FYE 2009 declined by RM5.01 million, mainly due to the completion of supply of pressure vessels to Global Process Systems Sdn Bhd and Karib Serasi (M) Sdn Bhd valued at RM4.77 million in FYE 2008.

Local revenue for FYE 2010 declined by RM3.95 million, mainly due to the completion of supply of tanks to Sinclair Knight Merz Sdn Bhd valued at RM2.70 million in FYE 2009.

In FYE 2011, local revenue increased by RM4.11 million mainly due to the increased orders for all core products of the Group.

In FYE 2012, local revenue surged by RM5.84 million which was contributed by a spike in orders from new local customers for the supply of pressure vessels and road tankers.

The local revenue for FYE 2013 decreased marginally by RM0.59 million.

In FYE 2014, local revenue decreased by RM1.13 million. There was a decrease in the provision of metal forming services and supply of pressure vessels amounting to RM3.45 million, and was offset with an increase in supply of LPG vessels, road tankers and tanks of RM2.35 million collectively.

In FYE 2015, local revenue declined by RM0.76 million to RM11.48 million due to the completion of metal forming services for a new customer secured in 2013.

In FYE 2016, local revenue increased by RM1.10 million mainly attributable to the increased orders for all the Group's core products save for LPG vessels.

In FPE 2017, the local revenue increased by RM0.31 million from RM3.94 million in FPE 2016 to RM4.25 million in FPE 2017 due to increase in orders for metal forming and heat treatment services and supply of pressure vessels amounting to RM1.32 million. However, the increase was offset with a decline in supply of LPG vessels, road tankers and tanks of RM1.00 million collectively.

The rest of this page is intentionally left blank

(iv) Analysis of revenue by products

The table below sets out the breakdown of revenue by product categories for the respective financial years under review:

	Audited																		Unaudited			
	FYE 2008		FYE 2009		FYE 2010		FYE 2011		FYE 2012		FYE 2013		FYE 2014		FYE 2015		FYE 2016		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
LPG vessels	752	2.6	762	3.5	2,180	14.9	2,079	15.3	2,453	12.0	1,789	9.7	2,328	14.9	4,293	32.7	8,047	42.9	2,529	47.4	1,358	30.3
Tanks	12,249	42.7	6,996	32.1	4,971	34.0	5,096	37.6	4,892	24.0	3,210	17.4	4,628	29.7	4,419	33.7	5,194	27.7	1,288	24.1	1,105	24.6
Pressure vessels	12,130	42.3	9,195	42.2	2,184	14.9	1,336	9.9	6,379	31.3	7,319	39.7	4,419	28.3	1,551	11.8	2,184	11.7	528	9.9	855	19.1
Road tankers	1,335	4.7	1,898	8.7	4,512	30.9	1,185	8.7	3,588	17.6	940	5.1	1,305	8.4	1,436	11.0	1,591	8.5	702	13.2	231	5.1
Metal forming services	2,024	7.0	2,676	12.3	724	5.0	3,767	27.8	2,803	13.7	5,092	27.7	2,884	18.5	1,401	10.7	1,729	9.2	284	5.3	913	20.3
Miscellaneous	191	0.7	270	1.2	53	0.4	96	0.7	278	1.4	65	0.4	29	0.2	14	0.1	-	-	6	0.1	27	0.6
	28,681	**100.0**	**21,797**	**100.0**	**14,624**	**100.0**	**13,559**	**100.0**	**20,393**	**100.0**	**18,415**	**100.0**	**15,593**	**100.0**	**13,114**	**100.0**	**18,745**	**100.0**	**5,337**	**100.0**	**4,489**	**100.0**

Comparison between FYE 2009 and FYE 2008

In FYE 2009, revenue decreased by RM6.88 million to RM21.80 million. The decrease was mainly due to lower revenue derived from pressure vessels and tanks. However, the decrease was mitigated by higher revenue from metal forming services and road tankers. In FYE 2009, sale of pressure vessels and tanks remained as the Group's major revenue contributor of 74.3% collectively.

(i) LPG vessels

Revenue from LPG vessels was marginally higher by RM0.01 million from RM0.75 million in FYE 2008 to RM0.76 million in FYE 2009.

(ii) Tanks

Revenue from tanks recorded in FYE 2009 decreased by RM5.25 million to RM7.00 million due to lower orders from PT Shell Indonesia of RM4.50 million following the softening of oil and gas industry.

(iii) Pressure vessels

Revenue from pressure vessels declined by RM2.93 million from RM12.13 million in FYE 2008 to RM9.20 million in FYE 2009 as a result of the completion of orders totalling RM4.80 million in FYE 2008. The decline was cushioned by the increased orders from NEM b.v. in Netherlands amounting to RM2.63 million.

(iv) Road tankers

Revenue recorded from road tankers for FYE 2009 was RM1.90 million as compared to RM1.34 million in FYE 2008, representing an increase of RM0.56 million.

In FYE 2009, the Group secured a large contract to supply road tankers from a new customer from China, namely New Cosmos (HK) Ltd which amounting to RM3.97 million. The delivery was completed between FYE 2009 and FYE 2010. In FYE 2009, RM1.09 million of the total contract value was delivered, resulting in the increase in revenue derived from road tankers.

(v) Metal forming services

In FYE 2009, revenue recorded from metal forming services was RM2.68 million as compared to RM2.02 million in FYE 2008. The increase of RM0.66 million was due to two (2) new jobs secured locally valued at RM0.65 million.

(vi) Miscellaneous

Revenue from miscellaneous comprises other services, such as heat treatment and repairing and renting of transportable containers for hazardous chemicals which contributed approximately 1.2% of total revenue.

Comparison between FYE 2010 and FYE 2009

In FYE 2010, revenue decreased by RM7.18 million from RM21.80 million in FYE 2009 to RM14.62 million. The decrease was mainly due to lower revenue derived from manufacturing of pressure vessels and tanks as well as provision of metal forming services which was partially offset by higher revenue from LPG vessels and road tankers. Revenue from road tankers and tanks collectively made up 64.9% of the Group's revenue in FYE 2010.

(i) LPG vessels

Revenue generated from LPG vessels was higher at RM2.18 million in FYE 2010 from RM0.76 million in FYE 2009, representing an increase of RM1.42 million. The increase was mainly attributable to the increased orders from an existing customer in Hong Kong which amounting to RM1.18 million.

(ii) Tanks

In FYE 2010, revenue generated from tanks recorded at RM4.97 million as compared to RM7.00 million in FYE 2009, representing a decrease of RM2.03 million following the completion of supply of tanks to Sinclair Knight Merz Sdn Bhd valued at RM2.70 million. The decrease was partially cushioned by the orders from PT Shell Indonesia.

(iii) Pressure vessels

Revenue from pressure vessels in FYE 2010 was lower at RM2.18 million as compared to RM9.20 million in FYE 2009. The declined of RM7.02 million was as a result of completion of project to NEM b.v. amounting to RM7.51 million in FYE 2009. The decrease was partially offset by the increased orders from Draeger Safety Asia Pte Ltd valued at RM0.72 million.

(iv) Road tankers

In FYE 2010, revenue from road tankers recorded was RM4.51 million as compared to RM1.90 million in FYE 2009, representing an increase of RM2.61 million.

In FYE 2009, the Group secured a large contract to supply road tankers from a new customer from China, New Cosmos (HK) Ltd amounting to RM3.97 million. The delivery was completed over FYE 2009 and FYE 2010. The completion of the contract in FYE 2010 has contributed to the increase in revenue by RM1.79 million. Furthermore, a new job secured coupled with the increased orders from an existing customer amounting to RM0.82 million collectively, have also contributed to the increase in revenue.

(v) Metal forming services

Revenue generated from metal forming services declined by RM1.96 million from RM2.68 million in FYE 2009 to RM0.72 million in FYE 2010 following the completion of various jobs amounting to RM1.69 million in FYE 2009.

(vi) Miscellaneous

Miscellaneous revenue for FYE 2010 was RM0.05 million as compared to RM0.27 million in FYE 2010, representing a decrease of RM0.22 million mainly due to the expiry of the lease agreement of tanks in the first quarter of FYE 2010 to Singapore for Orient Tainers Pte Ltd.

Comparison between FYE 2011 and FYE 2010

In FYE 2011, revenue decreased by RM1.06 million from RM14.62 million in FYE 2010 to RM13.56 million. The decrease was mainly due to lower revenue derived from road tankers and pressure vessels which was mitigated by higher revenue contributed from metal forming services. Revenue from metal forming services and tanks collectively account for 65.4% of the Group's revenue in FYE 2011.

(i) LPG vessels

Revenue generated from LPG vessels for FYE 2011 was RM2.08 million which was consistent as compared to RM2.18 million in FYE 2010.

(ii) Tanks

In FYE 2011, revenue from tanks amounting to RM5.10 million was marginally higher as compared to RM4.97 million in FYE 2010, representing an increase of RM0.13 million.

(iii) Pressure vessels

Revenue from pressure vessels for FYE 2011 is RM1.34 million as compared to RM2.18 million in FYE 2010. Revenue declined by RM0.84 million resulting from the completion of jobs for Draeger Safety Asia Pte Ltd and Innovative Process Solution Sdn Bhd, valued at RM0.96 million in FYE 2010.

(iv) Road tankers

Revenue from road tankers recorded for FYE 2011 was RM1.19 million as compared to RM4.51 million in FYE 2010 representing a decrease of RM3.32 million following the completion of the exports of road tankers to China and Philippines which collectively contributed RM3.83 million in revenue in FYE 2010.

(v) Metal forming services

In FYE 2011, revenue from metal forming services was RM3.77 million as compared to RM0.72 million in FYE 2010, denotes a growth of RM3.05 million mainly attributable to increased local orders amounting to RM2.36 million and new export jobs to Indonesia for PT Heat Exchange and PT Promatcon amounting to RM0.47 million.

(vi) Miscellaneous

Miscellaneous revenue was marginally higher at RM0.10 million as compared to RM0.05 million in FYE 2010, representing an increase of RM0.05 million.

Comparison between FYE 2012 and FYE 2011

In FYE 2012, revenue grew by RM6.83 million from RM13.56 million in FYE 2011 to RM20.39 million. The increase was mainly due to higher revenue derived from pressure vessels and road tankers which was marginally offset by lower revenue from metal forming services. In FYE 2012, revenue from pressure vessels and tanks collectively made up 55.3% of the Group's revenue.

(i) LPG vessels

In FYE 2012, revenue from LPG vessels was higher at RM2.45 million as compared to RM2.08 million in FYE 2011, representing an increase of RM0.37 million. The increase was mainly attributable to the increased export orders to Hong Kong amounting to RM0.36 million.

(ii) Tanks

Revenue from tanks in FYE 2012 of RM4.89 million was marginally lower as compared to RM5.10 million in FYE 2011, representing a decrease of RM0.21 million.

(iii) Pressure vessels

Revenue from pressure vessels surged by RM5.04 million from RM1.34 million in FYE 2011 to RM6.38 million in FYE 2012 mainly contributed by orders from new local customers valued at RM4.91 million.

(iv) Road tankers

Revenue from road tankers grew by RM2.40 million from RM1.19 million in FYE 2011 to RM3.59 million in FYE 2012 mainly contributed by orders secured from Daihatsu (Malaysia) Sdn Bhd and increased in orders from Indah Water Konsortium Sdn Bhd totalling RM2.10 million.

(v) Metal forming services

In FYE 2012, revenue from metal forming services recorded at RM2.80 million as compared to RM3.77 million in FYE 2011, denotes a decrease of RM0.97 million mainly attributable to decreased local orders of RM1.25 million.

(vi) Miscellaneous

Miscellaneous revenue were marginally higher at RM0.28 million as compared to RM0.10 million in FYE 2011, representing an increase of RM0.18 million due to a one-off sale of transportable tanks.

Comparison between FYE 2013 and FYE 2012

In FYE 2013, revenue decreased by RM1.97 million from RM20.39 million in FYE 2012 to RM18.42 million. The decrease was mainly due to lower revenue derived from road tankers, tanks and LPG vessels which was compensated by higher revenue from metal forming services. Revenue from pressure vessels and metal forming services collectively made up of 67.4% of the Group's revenue in FYE 2013.

(i) LPG vessels

Revenue from LPG vessels posted for FYE 2013 was lower at RM1.79 million as compared to RM2.45 million in FYE 2012, representing a decrease of RM0.66 million. The decrease was mainly attributable to decreased export to Hong Kong amounting to RM0.80 million.

(ii) Tanks

In FYE 2013, revenue from tanks was lower at RM3.21 million as compared to RM4.89 million in FYE 2012, representing a decrease of RM1.68 million. The decrease was due to ceased orders from PT Shell Indonesia which contributed to RM2.12 million in revenue in FYE 2012. The decrease was cushioned by increased local orders by RM0.44 million.

(iii) Pressure vessels

Revenue from pressure vessels increased by RM0.94 million from RM6.38 million in FYE 2012 to RM7.32 million in FYE 2013 mainly contributed by orders secured from a new export customer, Brunei Shell Petroleum Co Sdn Bhd, valued at RM0.94 million.

(iv) Road tankers

Revenue from road tankers declined by RM2.65 million from RM3.59 million in FYE 2012 to RM0.94 million in FYE 2013 as a result of the completion of jobs from Indah Water Konsortium Sdn Bhd and Daihatsu (Malaysia) Sdn Bhd, which collectively contributed RM2.50 million revenue for FYE 2012.

(v) Metal forming services

Revenue derived from metal forming services for FYE 2013 was recorded at RM5.09 million as compared to RM2.80 million in FYE 2012, denotes an increase of RM2.29 million, mainly attributable to jobs secured from a new local customer.

(vi) Miscellaneous

Miscellaneous revenue were marginally lower at RM0.06 million as compared to RM0.28 million in FYE 2012, representing a decrease of RM0.22 million due to a one-off sale of transportable tanks in FYE 2012.

Comparison between FYE 2014 and FYE 2013

In FYE 2014, revenue decreased by RM2.82 million from RM18.41 million in FYE 2013 to RM15.59 million. The decrease was mainly due to lower revenue derived from pressure vessels and metal forming services which was partially offset by higher revenue from tanks. Revenue from pressure vessels and tanks collectively made up 58.0% of the Group's revenue in FYE 2014.

(i) LPG vessels

In FYE 2014, revenue from LPG vessels was higher at RM2.33 million as compared to RM1.79 million in FYE 2013, representing an increase of RM0.54 million, mainly attributable to jobs secured locally.

(ii) Tanks

Revenue from tanks for FYE 2014 was higher at RM4.63 million as compared to RM3.21 million in FYE 2013, representing an increase of RM1.42 million, mainly attributable to jobs secured locally.

(iii) Pressure vessels

Revenue from pressure vessels for FYE 2014 declined by RM2.90 million from RM7.32 million in FYE 2013 to RM4.42 million in FYE 2014 following the completion of the orders to a trader in Brunei. The decrease was compensated by a new order to Singapore for Master Tech Diving Services Pte Ltd.

(iv) Road Tankers

Revenue from road tankers for FYE 2014 increased by RM0.37 million from RM0.94 million in FYE 2013 to RM1.31 million in FYE 2014 due to increased orders from Scomi Special Vehicles Sdn Bhd, an existing local customer amounting to RM0.37 million.

(v) Metal forming services

Revenue from metal forming services for FYE 2014 was lower at RM2.88 million as compared to RM5.09 million in FYE 2013, denotes a decrease of RM2.21 million due to the decline in local orders.

(vi) Miscellaneous

Revenue from miscellaneous was marginally lower revenue at RM0.03 million as compared to RM0.07 million in FYE 2013, representing a decrease of RM0.04 million.

Comparison between FYE 2015 and FYE 2014

In FYE 2015, revenue decreased by RM2.48 million from RM15.59 million in FYE 2014 to RM13.11 million. The decrease was mainly due to lower revenue derived from pressure vessels and metal forming services which was partially compensated by higher revenue from LPG vessels. LPG vessels and tanks are major revenue contributors, collectively accounting for 66.4% of the Group's revenue in FYE 2015.

(i) LPG vessels

Revenue from LPG vessels grew by RM1.96 million from RM2.33 million in FYE 2014 to RM4.29 million in FYE 2015 mainly attributable to the increased local orders of RM2.04 million.

(ii) Tanks

In FYE 2015, revenue from tanks was RM4.42 million as compared to RM4.63 million in FYE 2014, representing a decrease of RM0.21 million.

(iii) Pressure vessels

Revenue from pressure vessels declined by RM2.87 million from RM4.42 million in FYE 2014 to RM1.55 million in FYE 2015 following the completion of jobs including exports to Brunei Shell Petroleum Co Sdn Bhd and Master Tech Diving Services Pte Ltd in Singapore.

(iv) Road tankers

In FYE 2015, revenue from road tankers was marginally higher at RM1.44 million as compared to RM1.31 million in FYE 2014, representing an increase of RM0.13 million.

(v) Metal forming services

Revenue from metal forming services for FYE 2015 was recorded at RM1.40 million as compared to RM2.88 million in FYE 2014, denotes a decrease of RM1.48 million following the completion of jobs from a new local customer in FYE 2014 amounting to RM1.21 million.

(vi) Miscellaneous

Miscellaneous registered marginally lower revenue of RM0.01 million as compared to RM0.03 million in FYE 2014, representing a decrease of RM0.02 million.

<u>Comparison between FYE 2016 and FYE 2015</u>

In FYE 2016, revenue grew by RM5.64 million from RM13.11 million to RM18.75 million. The increase was mainly attributable to higher revenue derived from LPG vessels, tanks and pressure vessels. LPG vessels and tanks were major revenue contributors, collectively accounting for 70.6% of the Group's revenue.

(i) LPG vessels

Revenue from LPG vessels grew by RM3.76 million from RM4.29 million in FYE 2015 to RM8.05 million in FYE 2016 mainly attributable to the increased exports to Hong Kong amounting to RM4.32 million. The increase was partially offset by the decreased in local orders.

(ii) Tanks

Tanks revenue grew by RM0.77 million from RM4.42 million in FYE 2015 to RM5.19 million in FYE 2016 mainly due to the increased local orders.

(iii) Pressure vessels

Revenue from pressure vessels increased by RM0.63 million from RM1.55 million in FYE 2015 to RM2.18 million in FYE 2016 mainly due to new jobs secured in Brunei and Singapore totalling RM0.66 million.

(iv) Road tankers

Road tankers posted marginally higher revenue of RM1.59 million as compared to RM1.44 million in FYE 2015, representing an increase of RM0.15 million.

(v) Metal forming services

Metal forming services recorded RM1.73 million revenue as compared to RM1.40 million in FYE 2015, denotes an increase of RM0.33 million mainly due to additional local orders.

(vi) Miscellaneous

There is no miscellaneous revenue for FYE 2016, representing a decrease of RM0.01 million from FYE 2015.

Comparison between FPE 2017 and FPE 2016

In FPE 2017, revenue decreased by RM0.85 million from RM5.34 million in FPE 2016 to RM4.49 million. The decrease was mainly due to lower revenue derived from LPG vessels and road tankers which was partially offset by higher revenue from metal forming services and pressure vessels. LPG vessels and tanks were major revenue contributors, collectively accounting for 54.9% of the Group's revenue in FPE 2017.

(i) LPG vessels

In FPE 2017, revenue from LPG vessels was lower at RM1.36 million as compared to RM2.53 million in FPE 2016, representing a decrease of RM1.17 million, mainly attributable to deferred export orders for LPG vessels to Hong Kong.

(ii) Tanks

Revenue from tanks for FPE 2017 was marginally lower at RM1.11 million as compared to RM1.29 million in FPE 2016, representing a decrease of RM0.18 million.

(iii) Pressure vessels

Revenue from pressure vessels for FPE 2017 increased by RM0.33 million from RM0.53 million in FPE 2016 to RM0.86 million in FPE 2017 despite the completion of the orders to Singapore. The increase was mainly attributable to new orders secured locally.

(iv) Road Tankers

Revenue from road tankers for FPE 2017 decreased by RM0.47 million from RM0.70 million in FPE 2016 to RM0.23 million in FPE 2017 as a result of the completion of jobs from local customers which collectively contributed RM0.59 million revenue for FPE 2016.

(v) Metal forming services

Revenue derived from metal forming services for FPE 2017 was recorded at RM0.91 million as compared to RM0.28 million in FPE 2016, denotes an increase of RM0.63 million, mainly attributable to jobs secured from existing local customers.

(vi) Miscellaneous

Revenue from miscellaneous was marginally higher as revenue from heat treatment services recorded was RM0.03 million in FPE 2017 as compared to RM0.006 million in FPE 2016, representing an increase of RM0.03 million.

The rest of this page is intentionally left blank

3.2 COST OF SALES, GP/(GL) AND GP/(GL) MARGIN OVERVIEW

	Audited									Unaudited	
	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FPE 2016	FPE 2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Revenue	28,681	4,489	14,624	13,559	20,393	18,415	15,593	13,114	18,745	5,337	4,489
Cost of sales	(24,256)	(18,636)	(14,604)	(14,143)	(17,860)	(15,471)	(15,846)	(14,438)	(13,767)	(4,573)	(3,229)
Gross profit/(loss) ("GP/(GL)")	4,425	3,161	20	(584)	2,533	2,944	(253)	(1,324)	4,978	764	1,260
GP/(GL) margin (%)	15.4	14.5	0.1	(4.3)	12.4	16.0	(1.6)	(10.1)	26.6	14.3	28.1

The table below sets out the breakdown of cost of sales for the respective financial years under review.

	Audited																		Unaudited			
	FYE 2008		FYE 2009		FYE 2010		FYE 2011		FYE 2012		FYE 2013		FYE 2014		FYE 2015		FYE 2016		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Raw material	14,315	59.0	11,106	59.6	8,435	57.7	9,091	64.2	10,493	58.8	5,987	38.7	8,315	52.4	5,286	36.6	7,559	54.9	2,759	60.3	1,933	59.9
Contract charges	3,740	15.4	2,279	12.2	1,928	13.2	1,506	10.6	2,626	14.7	4,904	31.7	2,905	18.3	4,847	33.6	2,479	18.0	904	19.8	600	18.6
Labour cost	1,809	7.5	1,290	6.9	1,357	9.3	1,243	8.8	1,576	8.8	1,457	9.4	1,952	12.3	1,927	13.3	1,541	11.2	305	6.7	311	9.6
Depreciation of property, plant and equipment	1,087	4.5	1,062	5.7	1,021	7.0	972	6.9	995	5.6	880	5.7	838	5.3	792	5.5	688	5.0	185	4.0	153	4.7
Rental of premise	474	2.0	451	2.4	453	3.1	452	3.2	450	2.5	464	3.0	522	3.3	516	3.6	443	3.2	116	2.5	90	2.8
Transportation	1,754	7.2	1,519	8.2	849	5.8	462	3.3	1,091	6.1	1,064	6.9	563	3.6	447	3.1	422	3.1	112	2.5	51	1.6
Upkeep of building and machineries	376	1.6	371	2.0	170	1.2	87	0.6	191	1.1	241	1.6	272	1.7	236	1.6	254	1.9	68	1.5	32	1.0
Factory utilities	327	1.3	388	2.1	247	1.7	204	1.4	281	1.6	277	1.8	295	1.9	283	2.0	332	2.4	87	1.9	59	1.8
Rental of machineries	129	0.5	19	0.1	10	0.1	8	0.1	7	0.0	52	0.3	9	0.1	42	0.3	1	-	-	-	-	-
Factory consumables	138	0.6	102	0.5	54	0.4	55	0.4	93	0.5	90	0.6	115	0.7	-	-	-	-	-	-	-	-
Miscellaneous	107	0.4	49	0.3	80	0.5	63	0.5	57	0.3	55	0.3	60	0.4	62	0.4	48	0.3	37	0.8	-	-
Cost of sales	**24,256**	**100.0**	**18,636**	**100.0**	**14,604**	**100.0**	**14,143**	**100.0**	**17,860**	**100.0**	**15,471**	**100.0**	**15,846**	**100.0**	**14,438**	**100.0**	**13,767**	**100.0**	**4,573**	**100.0**	**3,229**	**100.0**

The composition of cost of sales largely depends on the complexity of scope of work and also raw material requirements for each job awarded. For instance, certain metal forming services would require higher labour and sub-contract work but minimal raw materials in the event raw materials are provided by customers. Whilst, certain road tankers have higher composition of raw material cost when the Group is required to supply the chassis and greater labour requirements for the assembly of the comprehensive operating system which comprises pneumatic, hydraulic, mechanical, electronic and electrical system.

Raw material cost is the largest cost component in the cost of sales for the financial years under review. The key materials used are steel plates and bars, chassis, pipes, flanges, glass roving, emblet, resin, consumables and accessories.

Contract charges represent the second largest cost component in the cost of sales for the financial years under review. Contract charges comprise sub-contractor's charges for fabrication and erection works, testing and inspection, blasting and painting, heating, design and engineering.

Further analysis of key cost components over the FYEs under review is set out in Section 3.2.1 below.

3.2.1 COMMENTARY ON COST OF SALES, GP/(GL) AND GP MARGIN/(GL MARGIN)

Comparison between FYE 2009 and FYE 2008

In FYE 2009, cost of sales decreased by RM5.62 million or 23.2% from RM24.26 million to RM18.64 million which is in tandem with the decrease in revenue by RM6.88 million or 24.0% from FYE 2008.

GP margin has decreased marginally by 0.9% from 15.4% in FYE 2008 to 14.5% in FYE 2009 due to lower revenue generated to absorb the fixed overheads such as depreciation and rental of premises.

Comparison between FYE 2010 and FYE 2009

In FYE 2010, cost of sales decreased by RM4.04 million or 21.7% from RM18.64 million in FYE 2009 to RM14.60 million while the revenue decreased by RM7.18 million or 32.9% from RM21.80 million in FYE 2009 to RM14.62 million. The Group recorded GP of RM0.02 million for FYE 2010 and GP margin of 0.1%.

The GP margin reduced significantly by 14.4% in FYE 2010 as the decrease in revenue exceeded the decrease in cost of sales attributable to higher labour cost from the road tankers segment which requires more man hours to assemble the comprehensive operating system and fixed overheads such as depreciation and rental of premises.

Comparison between FYE 2011 and FYE 2010

In FYE 2011, cost of sales decreased by RM0.46 million or 3.1% from RM14.60 million in FYE 2010 to RM14.14 million vis-à-vis the decrease in revenue by RM1.06 million or 7.3%. In FYE 2011, the Group recorded GL of RM0.58 million and GL margin of 4.3% as the revenue generated is unable to absorb the high cost of sales.

The deterioration in GL margin was mainly attributable to the higher raw material cost composition over revenue as a result of steep increase in steel plates prices which was not fully passed on to the customers.

Comparison between FYE 2012 and FYE 2011

In FYE 2012, cost of sales increased by RM3.72 million or 26.3% while the revenue increased by RM6.83 million or 50.4% from FYE 2011. The Group recorded GP of RM2.53 million in FYE 2012 and the GP margin improved by 16.7% from GL margin of 4.3% in FYE 2011 to GP margin of 12.4% in FYE 2012.

The favourable position of the Group was attributable to the higher revenue derived from manufacturing of pressure vessels and road tankers while the Group is able pass on significant portion of the increased in raw material prices to most of its customers.

Comparison between FYE 2013 and FYE 2012

Cost of sales for FYE 2013 decreased by RM2.39 million or 13.4% to RM15.47 million while revenue decreased by RM1.97 million or 9.7% from FYE 2012. The Group recorded GP of RM2.94 million and GP margin of 16.0%, denotes an improvement of RM0.41 million and 3.6% respectively, on the back of the lower raw material cost composition over revenue.

The reduction in cost of sales was due to lower raw material cost from RM10.49 million in FYE 2012 to RM5.99 million in FYE 2013 as the Group was focusing on provision of metal forming services which require minimal raw material. The decrease in raw material cost was offset partially by the increase in contract charges from RM2.63 million in FYE 2012 to RM4.90 in FYE 2013. The contract charges for FYE 2013 increased significantly due to increase in sub-contract works required for metal forming jobs and complex jobs requirements for the supply of pressure vessels.

Comparison between FYE 2014 and FYE 2013

In FYE 2014, cost of sales increased by RM0.38 million or 2.5% to RM15.85 million despite the decrease in revenue by RM2.82 million or 15.3% from FYE 2013. As a result, the Group recorded GL and GL margin of RM0.25 million and 1.6% respectively.

The increase in cost of sales was mainly due to higher labour cost resulted from the recruitment of expatriates from India, Sri Lanka and Philippines in anticipation of potential huge projects which did not materialised. These expatriates were contracted for two (2) years from 2014. In addition, the increase in raw material composition cost due to increase in the manufacturing of LPG vessels and had also led to the increase in cost of sales.

Comparison between FYE 2015 and FYE 2014

In FYE 2015, the cost of sales decreased by RM1.41 million or 8.9% to RM14.44 million while the decrease in revenue by RM2.48 million or 15.9% from FYE 2014. The decrease in cost of sales was lower than the decrease in revenue as a result of the expatriates contracted in 2014 and the increase in contract charges by RM2.00 million. This was due to more jobs were sub-contracted to third parties to cope with complex jobs requirements and tighter delivery deadlines for the supply of LPG vessels and pressure vessels.

The lower revenue derived in FYE 2015 was insufficient to absorb high fixed overheads such as labour cost, depreciation and rental of premises, as a result, the Group recorded GL of RM1.32 million and GL margin of 10.1%.

Comparison between FYE 2016 and FYE 2015

Cost of sales for FYE 2016 decreased by RM0.67 million or 4.6% to RM13.77 million despite the increase in revenue by RM5.64 million or 42.9% from FYE 2015. The Group recorded GP of RM4.98 million and GP margin of 26.6% mainly due to the effective cost control measures implemented in the beginning of the FYE 2016 as detailed in Section 3.1 (ii) of the Circular.

As a result, GP and GP margin increased by RM6.30 million and 36.7% respectively. The increase in GP was mainly attributable to the decrease in contract charges by RM2.37 million as a result of the effective cost control measures. In addition, labour cost deceased by RM0.39 million as a result of the expiry of contracts with the expatriates which was not replaced to maintain lower fixed overheads.

Fixed overheads such as labour cost, depreciation and rental of premises were absorbed by higher revenue has also contributed to the improved GP margin.

Comparison between FPE 2017 and FPE 2016

In FPE 2017, the cost of sales decreased by RM1.34 million or 29.3% from RM4.57 million in FPE 2016 to RM3.23 million while revenue decreased by RM0.85 million or 15.9% from FPE 2016. The Group recorded GP of RM1.26 million and GP margin of 28.1%. The improvement in financial results were mainly due to the availability of additional working capital resulting from the Disposals and the effective cost control measures implemented since FYE 2016 as detailed in Section 3.1(i) and Section 3.1(ii) of the Circular respectively.

As a result, GP improved by RM0.50 million from RM0.76 million in FPE 2016 and GP margin improved by 13.8% from 14.3% in FPE 2016. The increase in GP was mainly attributable to the decrease in contract charges and raw materials by RM0.30 million and RM0.83 million respectively. Nevertheless, labour cost increased marginally despite a decline in revenue in FPE 2017 as the Group reduced the reliance on subcontractors.

The Group recorded a decrease in other fixed overheads after the completion of the Disposals as no depreciation was recorded in FPE 2017 and the rental cost of premises has reduced in FPE 2017.

The rest of this page is intentionally left blank

3.3 COMMENTARY ON OTHER INCOME

The table below sets out the breakdown of other income for the respective financial years under review.

	Audited																		Unaudited			
	FYE 2008		FYE 2009		FYE 2010		FYE 2011		FYE 2012		FYE 2013		FYE 2014		FYE 2015		FYE 2016		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Unrealised gain on foreign exchange	79	28.3	15	4.9	-	-	125	60.1	2	25.0	-	-	84	25.9	27	31.4	-	-	-	-	1	0.4
Insurance claims	-	-	-	-	-	-	-	-	-	-	-	-	103	31.8	56	65.1	-	-	-	-	-	-
Gain on disposal of property, plant and equipment	-	-	-	-	-	-	-	-	-	-	-	-	37	11.4	-	-	22,177	99.9	-	-	-	-
Gain on disposal of investment in an associate	-	-	-	-	-	-	-	-	-	-	-	-	93	28.7	-	-	22	0.1	-	-	-	-
Interest income	-	-	128	41.8	5	100.0	6	2.9	6	75.0	7	21.9	7	2.2	1	1.2	5	- *	-	-	277	98.9
Realised gain on foreign exchange	179	64.2	158	51.7	-	-	77	37.0	-	-	25	78.1	-	-	-	-	-	-	-	-	-	-
Others	21	7.5	5	1.6	-	-	-	-	-	-	-	-	-	-	2	2.3	-	-	-	-	2	0.7
Other income	**279**	**100.0**	**306**	**100.0**	**5**	**100.0**	**208**	**100.0**	**8**	**100.0**	**32**	**100.0**	**324**	**100.0**	**86**	**100.0**	**22,204**	**100.0**	**-**	**-**	**280**	**100.0**

Note:

* Negligible.

Other income generated throughout the financial years under review was primarily from realised and unrealised gain on foreign exchange for United States Dollar, Euro, Singapore Dollar, Brunei Dollar except for FYE 2010 and FYE 2016.

The marginal increase in other income for FYE 2009 was mainly attributable to a one-off late payment interest charged on a long overdue trade receivable. The weakening of RM had resulted in foreign exchange losses which led to the decreased in other income in FYE 2010 and FYE 2012. In FYE 2014 and FYE 2015, there were insurance claims on burglary of RM0.10 million and RM0.06 million respectively. The gain generated from the disposal of machineries and an investment property further contributed to the increase in other income in FYE 2014.

In FYE 2016, the Group recorded a gain on disposal of properties amounting to RM22.18 million, which has led to the increase in other income. In FPE 2017, the Group recorded interest income from fixed deposits of RM0.28 million.

3.4 COMMENTARY ON ADMINISTRATIVE AND OTHER EXPENSES

	Audited																		Unaudited			
	FYE 2008		FYE 2009		FYE 2010		FYE 2011		FYE 2012		FYE 2013		FYE 2014		FYE 2015		FYE 2016		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Selling and distribution expenses	206	6.0	124	4.2	128	3.6	148	4.8	126	3.4	106	3.4	126	3.5	78	1.8	145	4.1	59	5.5	62	6.5
Administrative expenses	3,112	90.6	2,742	92.3	2,886	81.4	2,526	81.3	2,498	67.7	2,852	92.6	3,377	93.8	3,641	84.7	3,218	92.1	953	89.0	892	93.3
Other expenses	117	3.4	105	3.5	533	15.0	433	13.9	1,066	28.9	123	4.0	96	2.7	578	13.5	132	3.8	59	5.5	2	0.2
Total	**3,435**	**100.0**	**2,971**	**100.0**	**3,547**	**100.0**	**3,107**	**100.0**	**3,690**	**100.0**	**3,081**	**100.0**	**3,599**	**100.0**	**4,297**	**100.0**	**3,495**	**100.0**	**1,071**	**100.0**	**956**	**100.0**

Comparison between FYE 2009 and FYE 2008

In 2009, total operating expenses declined by RM0.47 million or 13.7% from RM3.44 million in FYE 2008 to RM2.97 million in FYE 2009.

The selling and distribution expenses decreased by RM0.08 million or 38.1% to RM0.12 million in FYE 2009 due to lower overseas expenses incurred, in line with the decrease in export revenue.

As a result of the lower head count from 39 in FYE 2008 to 31 in FYE 2009, staff cost decreased by RM0.37 million and led to the decrease in administrative expenses by RM0.37 million or 11.9% from RM3.11 million in FYE 2008 to RM2.74 million in FYE 2009.

Other expenses decreased marginally by RM0.01 million or 8.3% from RM0.12 million in FYE 2008 to RM0.11 million in FYE 2009 as there is no bad debt written-off in FYE 2009 as compared to RM0.03 million in FYE 2008.

Comparison between FYE 2010 and FYE 2009

In FYE 2010, total operating expenses increased by RM0.58 million or 19.5% from RM2.97 million in FYE 2009 to RM3.55 million in FYE 2010, mainly attributable to the increase in other expenses by RM0.42 million or 381.8% to RM0.53 million in FYE 2010, due to RM0.48 million foreign exchange losses incurred as a result of the weakening of RM.

Administrative expenses increased by RM0.15 million or 5.5% from RM2.74 million in FYE 2009 to RM2.89 million in FYE 2010 mainly due to the following:

(i) increase in staff cost by RM0.08 million mainly attributable to recruitment of additional 3 staffs in replacement of staffs who left in FYE 2009;
(ii) increase in travelling cost by RM0.07 million to secure new overseas businesses; and
(iii) increase in audit fee, legal fee and security fee by RM0.05 million collectively.

Comparison between FYE 2011 and FYE 2010

In FYE 2011, total operating expenses decreased by RM0.44 million or 12.4% from RM3.55 million in FYE 2010 to RM3.11 million in FYE 2011. This was mainly attributed to the decrease in administrative expenses and other expenses.

Selling and distribution expenses increased marginally by RM0.02 million or 15.4% from RM0.13 million in FYE 2010 to RM0.15 million in FYE 2011, mainly due to the increase in marketing expenses by RM0.02 million.

Administrative expenses decreased by RM0.36 million or 12.5% from RM2.89 million in FYE 2010 to RM2.53 million in FYE 2011 mainly due to the following:

(i) decrease in staff cost by RM0.18 million as a result of lower head count from 34 in FYE 2010 to 29 in FYE 2011; and

(ii) decrease in travelling expenses by RM0.10 million.

Other expenses decreased by RM0.10 million or 18.9% to RM0.43 million in FYE 2011, mainly due lower foreign exchange losses of RM0.38 million which was however offset by provision made for doubtful trade receivables amounting to RM0.23 million and write-off of goodwill arising from investment in a subsidiary amounting to RM0.06 million due to continued losses incurred by the subsidiary.

Comparison between FYE 2012 and FYE 2011

In FYE 2012, total operating expenses increased by RM0.58 million or 18.6% from RM3.11 million in FYE 2011 to RM3.69 million in FYE 2012. This was mainly attributed to the increase in other expenses.

Other expenses increased by RM0.64 million or 148.8% from RM0.43 million to RM1.07 million in FYE 2012, mainly due to the following one-off expenses:

(i) allowance for impairment loss on property, plant and equipment amounting to RM0.75 million as a result of cessation of renting of transportable containers for hazardous chemicals to Singapore by a subsidiary; and

(ii) RM0.19 million written-off for doubtful trade receivables.

Selling and distribution expenses decreased marginally by RM0.02 million or 13.3% from RM0.15 million in FYE 2011 to RM0.13 million in FYE 2012, mainly due to the decrease in marketing expenses by RM0.01 million.

Administrative expenses decreased marginally by RM0.03 million or 1.2% from RM2.53 million in FYE 2011 to RM2.50 million in FYE 2012 mainly due to lower legal fee and security fee as compared to FYE 2011 by RM0.02 million collectively.

Comparison between FYE 2013 and FYE 2012

In FYE 2013, total operating expenses decreased by RM0.61 million or 16.5% from RM3.69 million in FYE 2012 to RM3.08 million in FYE 2013, mainly due to the decrease in other expenses by RM0.94 million or 87.9% to RM0.12 million in FYE 2013 as a result of non-recurrence of one-off expenses incurred in FYE 2012.

Selling and distribution expenses decreased by RM0.02 million or 15.4% from RM0.13 million in FYE 2012 to RM0.11 million in FYE 2013 due to the decrease in marketing expenses by RM0.01 million.

Administrative expenses increased by RM0.35 million or 14.0% from RM2.50 million in FYE 2012 to RM2.85 million in FYE 2013 mainly due to the following:

(i) increase in staff cost by RM0.18 million mainly attributable to salary increment to company staffs;

(ii) increase in director's remuneration by RM0.04 million;

(iii) increase in upkeep and maintenance of office building expenses by RM0.04 million;

(iv) increase in audit fee by RM0.02 million; and

(v) increase in travelling expenses by RM0.03 million.

Comparison between FYE 2014 and FYE 2013

In FYE 2014, total operating expenses increased by RM0.52 million or 16.9% from RM3.08 million in FYE 2013 to RM3.60 million in FYE 2014, mainly due to the increase in administrative expenses.

Administrative expenses increased by RM0.53 million or 18.6% from RM2.85 million in FYE 2013 to RM3.38 million in FYE 2014 mainly due to the following:

(i) increase in staff cost by RM0.29 million as there was higher head count arising from the recruitment of expatriates amounting to RM0.25 million in anticipation for potential petrochemical project in Johor which did not materialised. These expatriates were contracted for 2 years from FYE 2014; and

(ii) increase in director's remuneration by RM0.21 million.

Selling and distribution expenses increased by RM0.02 million or 18.2% from RM0.11 million in FYE 2013 to RM0.13 million in FYE 2014 due to the increase in marketing expenses by RM0.02 million.

Other expenses decreased by RM0.02 million or 16.7% to RM0.10 million in FYE 2014, mainly due to lower provision for doubtful trade receivables by RM0.02 million.

Comparison between FYE 2015 and FYE 2014

In FYE 2015, total operating expenses increased by RM0.70 million or 19.4% from RM3.60 million in FYE 2014 to RM4.30 million in FYE 2015. This was mainly attributed to the increase in administrative expenses and other expenses.

Administrative expenses increased by RM0.26 million or 7.7% from RM3.38 million in FYE 2014 to RM3.64 million in FYE 2015 mainly due to the following:

(i) increase in professional fees by RM0.10 million due to a proposed rights issue and private placement exercises undertaken by the Group which was subsequently aborted in FYE 2015; and

(ii) increase in director's remuneration by RM0.19 million.

Other expenses increased by RM0.48 million or 480.0% from RM0.10 million in FYE 2014 to RM0.58 million in FYE 2015, mainly due to the following one-off expenses:

(i) in FYE 2013, the Board had the intention to develop the land which it currently operates on. As such, various professionals had been appointed to prepare development plans and feasibility studies which amounting to total professional fees of RM0.16 million.

Subsequently in FYE 2015, the Group had decided to dispose its land and not proceed with its property development plans. Resulting thereto, the RM0.16 million in professional fees was written-off;

(ii) loss on disposal of plant and equipment amounting to RM0.17 million;

(iii) plant and equipment written-off amounting to RM0.08 million; and

(iv) goodwill arising from investment in a subsidiary was written-off amounting to RM0.08 million due to continued losses incurred by the subsidiary.

On the contrary, selling and distribution expenses decreased by RM0.05 million or 38.5% from RM0.13 million in FYE 2014 to RM0.08 million in FYE 2015, mainly due to the decrease in marketing expenses and upkeep of motor vehicles by RM0.04 million collectively.

Comparison between FYE 2016 and FYE 2015

The operating expenses decreased by RM0.80 million or 18.6% from RM4.30 million in FYE 2015 to RM3.50 million in FYE 2016. This was mainly attributed to the decrease in all operating expenses except for selling and distribution expenses.

Selling and distribution expenses increased by RM0.07 million or 87.5% from RM0.08 million in FYE 2015 to RM0.15 million in FYE 2016. This was due to the increase in upkeep of motor vehicles by RM0.03 million.

Administrative expenses decreased by RM0.42 million or 11.5% from RM3.64 million in FYE 2015 to RM3.22 million in FYE 2016 mainly due to the following:

(i) decrease in staff cost by RM0.30 million mainly attributable to lower head count arising from the expiry of contract with the expatriates; and

(ii) decrease in director's remuneration by RM0.08 million.

Other expenses decreased by RM0.45 million or 77.6% to RM0.13 million in FYE 2016, mainly due to non-recurrence of one-off expenses incurred in FYE 2015.

Comparison between FPE 2017 and FPE 2016

In FPE 2017, total operating expenses decreased by RM0.11 million or 10.3% from RM1.07 million in FPE 2016 to RM0.96 million. This was mainly attributed to the decrease in all operating expenses except for selling and distribution expenses.

The increase in selling and distribution expenses mainly due to increase in marketing expenses which is in line with the Group’s strategy to increase in marketing activities with increased frequency of physical visits to its existing and new customers from overseas.

Administrative expenses decreased by RM0.06 million or 6.3% from RM0.95 million in FPE 2016 to RM0.89 million in FPE 2017 mainly due to the savings on amortisation of leasehold properties resulted from the Disposals as detailed in Section 3.1(i) of the Circular.

Other expenses decreased from RM0.06 million in FPE 2016 to RM0.002 million due to foreign exchange losses of RM0.05 million incurred in FPE 2016.

3.5 COMMENTARY ON FINANCE COSTS

	Audited																		Unaudited			
	FYE 2008		FYE 2009		FYE 2010		FYE 2011		FYE 2012		FYE 2013		FYE 2014		FYE 2015		FYE 2016		FPE 2016		FPE 2017	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest expense:																						
- Bank overdrafts	229	39.8	172	45.1	280	61.4	342	68.0	262	64.2	367	59.1	380	53.5	366	49.8	317	54.4	98	51.0	-	-
- Finance lease	146	25.3	99	26.0	55	12.1	28	5.6	12	2.9	12	1.9	27	3.8	24	3.3	19	3.2	5	2.6	4	100.0
- Bankers' acceptance	149	25.9	107	28.1	111	24.3	127	25.2	126	30.9	241	38.8	301	42.4	344	46.8	246	42.2	89	46.4	-	-
Other Charges:																						
- Bank guarantee	52	9.0	3	0.8	10	2.2	6	1.2	8	2.0	1	0.2	2	0.3	1	0.1	1	0.2	-	-	-	-
Finance cost	**576**	**100.0**	**381**	**100.0**	**456**	**100.0**	**503**	**100.0**	**408**	**100.0**	**621**	**100.0**	**710**	**100.0**	**735**	**100.0**	**583**	**100.0**	**192**	**100.0**	**4**	**100.0**

The Group utilises various bank facilities including bank overdrafts, finance lease and bankers' acceptances for its manufacturing operations.

Throughout the financial years under review, the finance cost recorded is relatively consistent except for FYE 2013, FYE 2014 and FYE 2015 had increased the utilisation of bankers' acceptance in order to finance its operations. During these years, the Group had registered negative cash flow for its operating activities.

For FYE 2016, the cash flow from operating activities had improved and as such, the use of bank overdrafts and bankers' acceptance was reduced which led to lower finance cost of RM0.58 million recorded.

Following the completion of the Disposals, the Group had utilised RM11.79 million to repay the bank borrowings and the cash flow position of the Group had improved. As such, the Group's reliance on bank overdrafts and bankers' acceptance had reduced which led to decreased in finance cost to RM0.004 million.

3.6 TAX EXPENSES

The Malaysian statutory corporate tax rate was 26% for FYE 2008 and 25% for FYE 2009 to FYE 2015. In FYE 2016, the corporate tax rate was reduced to 24%.

For FYE 2008 to FYE 2010, the reversal of tax expenses was made on provision for deferred tax expense for a piece of leasehold land held by a subsidiary.

There were no tax expenses incurred from FYE 2011 to FYE 2015 as the Group was in loss position. For FYE 2016, deferred tax assets were recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. There was no deferred tax recognised in FPE 2017 where the recognition will be made on half yearly basis.

3.7 CASH FLOW SUMMARY

The following table sets out the summary of the consolidated statement of cash flows for the financial years under review.

	Audited									Unaudited	
	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FPE 2016	FPE 2017
	M'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Net cash from/(used in) operating activities	5,687	1,072	(971)	(2,632)	912	(3,425)	(684)	(68)	4,765	596	(4,047)
Net cash from/(used in) investing activities	(628)	(239)	(172)	(150)	(150)	(171)	(252)	13	34,284	(4)	265
Net cash from/(used in) financing activities	(3,075)	(1,825)	(755)	1,239	365	2,617	1,062	(553)	(15,011)	(352)	(1,249)
Net increase/(decrease) in cash and cash equivalents	1,984	(992)	(1,898)	(1,543)	1,127	(979)	126	(608)	24,038	240	(5,031)
Cash and cash equivalents at beginning of the financial year/period	(2,058)	(37)	(1,029)	(2,989)	(4,487)	(3,384)	(4,369)	(4,213)	(4,756)	(4,755)	19,251
Effect of change on foreign exchange	37	-	(62)	45	(24)	(6)	30	65	(31)	(40)	(3)
Cash and cash equivalents at end of the financial year/period	(37)	(1,029)	(2,989)	(4,487)	(3,384)	(4,369)	(4,213)	(4,756)	19,251	(4,555)	14,217
Cash and cash equivalents at the end of the financial years/period comprise:											
Fixed deposits with licensed banks	-	-	-	-	-	-	-	-	25,800	-	22,653
Cash and bank balances	2,626	2,498	1,675	828	1,014	628	389	421	2,951	302	1,076
Bank overdrafts	(2,663)	(3,527)	(4,664)	(5,315)	(4,398)	(4,997)	(4,602)	(5,177)	-	(4,857)	(12)
Fixed deposits pledged to licensed banks	-	-	-	-	-	-	-	-	(9,500)	-	(9,500)
	(37)	(1,029)	(2,989)	(4,487)	(3,384)	(4,369)	(4,213)	(4,756)	19,251	(4,555)	14,217

3.7.1 CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES

FYE 2008

Net cash generated from operating activities of RM5.69 million were derived from operating profit before working capital changes of RM2.61 million adjusted for net working capital inflow of RM3.60 million and the net outflow of tax and interest paid amounting to RM0.52 million.

FYE 2009

The decrease in operating profit before working capital changes from RM2.61 million in FYE 2008 to RM1.79 million in FYE 2009 was mainly due to lower PBT position, which decreased by RM0.59 million. After accounting for the following key items, net cash generated from operating activities stood at RM1.07 million:

(i) Decrease in inventories by RM3.08 million due to lower work-in-progress stock level in line with lower revenue;

(ii) Decrease in trade and other receivables by RM4.14 million due to lower revenue recorded in the last quarter of FYE 2009;

(iii) Increase in amount due from customers by RM2.78 million due to more projects secured with longer delivery lead time; and

(iv) Decrease in trade and other payables by RM4.78 million mainly due to an out of court settlement with a trade creditor amounting to RM3.50 million over fifteen (15) monthly instalments commencing from February 2009, of which RM2.56 million was paid in FYE 2009.

FYE 2010

The decrease in operating profit before working capital changes from RM1.79 million in FYE 2009 to operating loss before working capital changes of RM2.03 million in FYE 2010 was mainly due to decreased in PBT by RM4.07 million to a LBT of RM3.98 million. After accounting for the following key items, net cash used in operating activities stood at RM0.97 million:

(i) Increase in inventories by RM0.53 million mainly due to increase in work-in-progress stocks for projects with longer production lead time;

(ii) Decrease in amount due from customers by RM1.45 million due to completion of projects with longer delivery lead time; and

(iii) Increase in trade and other payables by RM0.52 million mainly due to increase in advance payment received from customers by RM0.50 million.

FYE 2011

In FYE 2011, the Group recorded RM2.05 million operating loss before working capital changes with a LBT of RM4.01 million. After accounting for the following key items, net cash used in operating activities stood at RM2.63 million:

(i) Decrease in inventories by RM2.23 million due to lower raw material stock in line with lower revenue coupled with lower finished goods stock as most orders were completed and delivered before the end of the financial year;

(ii) Increase in trade and other receivables by RM2.70 million as due to higher revenue recorded in the last quarter of FYE 2011;

(iii) Decrease in amount due from contract customer by RM1.04 million due to completion of long term projects; and

(iv) Decrease in trade and other payables by RM0.67 million due to lesser purchases from trade suppliers as a result of lower sales activity as compared to FYE 2010.

FYE 2012

The decrease in operating loss before working capital changes from RM2.05 million in FYE 2011 to operating profit before working capital changes of RM1.08 million in FYE 2012 was mainly due to the decrease in LBT by RM2.45 million to RM1.56 million in FYE 2012. After accounting for the following key items, net cash generated from operating activities stood at RM0.91 million:

(i) Increase in inventories by RM1.13 million in line with the increased in revenue;

(ii) Decrease in trade and other receivables by RM2.01 million due to lower revenue recorded in the last quarter of FYE 2012;

(iii) Increase in amount due from customers by RM0.78 million due to long term projects secured in FYE 2012; and

(iv) Increase in trade and other payables by RM0.12 million due to additional purchases from trade suppliers as a result of increase in sales activities.

FYE 2013

The increase in operating profit before working capital changes from RM1.08 million in FYE 2012 to RM1.10 million in FYE 2013 was mainly due to the decrease in LBT by RM0.83 million to RM0.73 million in FYE 2013. After accounting for the following key items, net cash used in operating activities stood at RM3.42 million:

(i) Increase in inventories by RM0.80 million due to higher work-in-progress stock as a result of higher orders in the last quarter of FY2013 coupled with higher finished goods which was only delivered in FYE 2014;

(ii) Increase in trade and other receivables by RM0.48 million as due to the delay in payment by a major trade receivable coupled with the dispute with a trade receivable which was only resolved in FYE 2014;

(iii) Increase in amount due from contract customers by RM2.36 million due to long-term projects secured in FYE 2013; and

(iv) Decrease in trade and other payables by RM0.28 million due to lesser purchases from trade suppliers as a result of lower sales activity.

FYE 2014

The decrease in operating profit before working capital changes from RM1.10 million in FYE 2013 to operating loss before working capital changes of RM2.43 million in FYE 2014 was mainly due to the increase in LBT by RM3.51 million to RM4.24 million in FYE 2014. After accounting for the following key items, net cash used in operating activities stood at RM0.68 million:

(i) Decrease in inventories by RM0.91 million due to lower stock level in line with the decreased in revenue;

(ii) Increase in trade and other receivables by RM0.28 million due to dispute with a trade receivable which was only resolved in FYE 2015;

(iii) Decrease in amount due from contract customers by RM1.50 million due to long-term projects secured in FYE 2013 are substantially completed in FYE 2014; and

(iv) Increase in trade and other payables by RM0.29 million due to increased in purchases towards end of the financial year.

FYE 2015

The increase in operating loss before working capital changes from RM2.43 million in FYE 2014 to RM3.96 million in FYE 2015 was mainly due to the increase in LBT by RM2.04 million to RM6.28 million in FYE 2015. After accounting for the following key items, net cash used in operating activities stood at RM0.07 million:

(i) Decrease in trade and other receivables by RM1.88 million mainly due to the settlement of dispute with a trade receivable which occurred in FYE 2014 coupled with lower revenue registered in the last quarter of FYE 2015;

(ii) Decrease in amount due from contract customers by RM1.23 million due to completion of long-term projects; and

(iii) Increase in trade and other payables by RM1.45 million mainly due to increase in advance payment received from customers by RM1.10 million as compared to FYE 2014.

FYE 2016

The increase in operating profit before working capital changes from operating loss before working capital changes of RM3.96 million in FYE 2015 to operating profit of RM2.38 million in FYE 2016 was mainly due to the improvement from LBT of RM6.28 million in FYE 2015 to PBT of RM23.10 million in FYE 2016. After accounting for the following key items, net cash generated from operating activities stood at RM4.77 million:

(i) Decrease in inventories by RM1.14 million due to lower work-in-progress stock;

(ii) Decrease in trade and other receivables by RM0.51 million as a result of tighter credit control;

(iii) Decrease in amount due from contract customers by RM0.71 million due to lesser long-term projects secured; and

(iv) Increase in trade and other payables by RM0.61 million due to the increase in purchases towards end of FYE 2016.

FPE 2017

The increase in operating profit before working capital changes from operating loss before working capital changes of RM0.06 million in FPE 2016 to operating profit of RM0.49 million in FPE 2017 was mainly due to the improvement from LBT of RM0.50 million in FPE 2016 to PBT of RM0.58 million in FPE 2017. After accounting for the following key items, net cash used in operating activities stood at RM4.05 million:

(i) Increase in inventories by RM0.77 million due to increase in raw material stock by RM1.05 million as the Group had purchased raw materials in larger bulk to further reduce its cost of sales. The Group undertook such approach as it had additional working capital from the proceeds of the Disposals. The increase was however offset by lower work-in-progress stock of RM0.27 million;

(ii) Increase in trade and other receivables by RM1.72 million due to increase in revenue towards end of FPE 2017. The trade receivables as at 31 March 2017 is RM2.95 million of which RM2.33 million or 79.0% is within the credit period granted to the customers; and

(iii) Decrease in trade and other payables by RM2.04 million mainly due to one-off goods and services tax payment arising from the Disposals of RM2.20 million which was due in FPE 2017.

3.7.2 CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES

FYE 2008

The net cash used in investing activities of RM0.63 million in FYE 2008 was mainly due to the purchase of plant and machineries and an intangible asset namely Underwriters Laboratories certification (UL certification) totalling RM0.74 million and the net cash inflow amounting to RM0.11 million, arising from the additional cost incurred in construction and commissioning of machineries.

FYE 2009

The net cash used in investing activities of RM0.24 million in FYE 2009 was mainly due to the following net effect:

(i) One-off late payment interest received from a long overdue trade receivable amounting to RM0.13 million;

(ii) purchase of machineries amounting to RM0.24 million; and

(iii) additional cost incurred in construction and commissioning of machineries amounting to RM0.13 million.

FYE 2010

The net cash used in investing activities of RM0.17 million in FYE 2010 was mainly due to the purchase of machineries of RM0.18 million.

FYE 2011

The net cash used in investing activities of RM0.15 million in FYE 2011 was mainly due to the purchase of plant and machinery amounting to RM0.11 million and additional investment in an associate of RM0.05 million.

FYE 2012

The net cash used in investing activities of RM0.15 million in FYE 2012 was mainly due to the purchase of plant and machinery of RM0.16 million.

FYE 2013

The net cash used in investing activities of RM0.17 million in FYE 2013 was mainly due to the purchase of plant and machinery of RM0.24 million. The net cash used in investing activities was set off by the proceeds from disposal of plant and machinery of RM0.06 million.

FYE 2014

The net cash used in investing activities of RM0.25 million in FYE 2014 was mainly due to the following net effect:

(i) proceeds from disposal of a motor vehicle of RM0.06 million;

(ii) proceeds from disposal of an investment property of RM0.47 million;

(iii) purchase of plant and equipment of RM0.27 million; and

(iv) additional cost incurred for land fill as a result of soil erosion at the Group's premises of RM0.52 million.

FYE 2015

The net cash from investing activities was RM0.01 million in FYE 2015.

FYE 2016

The net cash from in investing activities of RM34.28 million in FYE 2016 was mainly due to the following net effect:

(i) net proceeds from disposal of properties of RM35.61 million; and

(ii) real property gain tax paid of RM1.35 million.

FPE 2017

The net cash from investing activities of RM0.27 million was mainly due to the following net effect:

(i) interest earned from fixed deposits of RM0.28 million; and

(ii) purchase of plant and equipment of RM0.01 million.

3.7.3 CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES

FYE 2008

The net cash used in financing activities of RM3.08 million in FYE 2008 was due to net payment of banker's acceptance and finance lease of RM2.85 million and payment of dividends of RM0.23 million.

FYE 2009

The net cash used in financing activities of RM1.83 million in FYE 2009 was due to net payment of banker's acceptance and finance lease of RM1.56 million, advances to an associate company of RM0.06 million and the placement of fixed deposits amounting to RM0.20 million which was pledged to a financial institution as a security deposit for banking facilities granted to the Group.

FYE 2010

The net cash used in financing activities of RM0.75 million in FYE 2010 was mainly due to net payment of banker's acceptance and finance lease of RM0.76 million.

FYE 2011

The net cash from financing activities of RM1.24 million in FYE 2011 was mainly due to net drawdown of banker's acceptance of RM1.28 million and repayment from an associate of RM0.10 million. However, the net cash from financing activities was set off by payment of finance lease of RM0.13 million.

FYE 2012

The net cash from financing activities of RM0.37 million in FYE 2012 was mainly due to drawdown of banker's acceptance of RM0.51 million which was set off by payment of finance lease of RM0.13 million.

FYE 2013

The net cash from financing activities of RM2.62 million in FYE 2013 was mainly due to drawdown of banker's acceptance of RM2.73 million which was set off by payment of finance lease amounting to RM0.12 million.

FYE 2014

The net cash from financing activities of RM1.07 million in FYE 2014 was mainly due to drawdown of banker's acceptance of RM1.17 million which was set off by payment of finance lease of RM0.10 million.

FYE 2015

The net cash used in financing activities of RM0.55 million in FYE 2015 was mainly due to net payment of banker's acceptance and finance lease of RM0.76 million which was offset by the withdrawal of fixed deposit pledged amounting to RM0.23 million.

FYE 2016

The net cash used in financing activities of RM15.01 million in FYE 2016 was mainly due to net payment of banker's acceptance and finance lease of RM5.48 million and placement of RM9.50 million fixed deposits pledged to the banks for trade line facilities.

FPE 2017

The net cash used in financing activities of RM1.25 million in FPE 2017 was due to net payment of banker's acceptance and finance lease.

3.7.4 WORKING CAPITAL

The Group's operations are financed through cash generated from its operations, trade facilities such as letter of credit, trust receipt, bankers' acceptance and bank guarantee, overdraft facilities and foreign exchange line.

In the past, the Group did not have sufficient operating cash flow to finance the high capital outlay required in several major projects it was keen to participate in. However, after the completion of the Disposals, the Group's current ratio and cash flow position have improved.

After taking into account the gearing and cash flow position as well as the banking facilities currently available to the Group, the Board is confident that the Group's working capital will be sufficient for its existing and foreseeable requirements for a period of 12 months from the date of this Circular in view of the following:

(i) The Group has a net current asset position of RM27.79 million as at 31 March 2017;

(ii) The Group has a cash and balances of RM1.08 million and fixed deposits with licensed banks of RM22.65 million as at 31 March 2017; and

(iii) The Group has trade facilities amounting to a total of RM13.0 million and overdraft facilities of RM4.0 million, which can be utilised if required. As at 31 March 2017, the Group's bank borrowings amounting to RM0.38 million at the gearing of 0.01 times.

In addition, the Group had utilised RM11.79 million of the proceeds from the Disposals to repay bank borrowings. The Group is expected to have total estimated interest savings of RM0.71 million per annum (calculated at effective interest rate of approximately 5.98% per annum) resulting from the repayment of bank borrowings with proceeds from the Disposals. This will reduce cash outflow for the Company for future financial years.

The rest of this page is intentionally left blank

4. KEY FINANCIAL RATIOS

The key financial ratios of the Group for the financial years under review are as follows:

	Audited									Unaudited	
	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FPE 2016	FPE 2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables turnover period (days)(1)	89	49	68	134	52	65	83	57	21	50	59
Trade payables turnover period (days)(2)	104	43	55	41	42	36	43	51	47	39	55
Inventory turnover period (days)(3)	125	102	142	78	85	117	91	99	74	70	99
Current ratio (times)(4)	1.41	1.70	1.31	0.96	0.97	0.99	0.75	0.46	5.31	0.37	10.18
Gearing ratio (times)(5)	0.18	0.16	0.19	0.28	0.28	0.42	0.53	0.71	0.04	0.69	0.01

Notes:

(1) Computed based on trade receivables as at year end over revenue for the year multiplied by 365 days for FYE 2009, FYE 2010, FYE 2011, FYE 2013, FYE 2014, FYE 2015 and multiplied by 366 days for FYE 2008, FYE 2012 and FYE 2016 and multiplied by 90 days for FPE 2016 and FPE 2017.

(2) Computed based on trade payables as at year end over cost of sales for the year multiplied by 365 days for FYE 2009, FYE 2010, FYE 2011, FYE 2013, FYE 2014, FYE 2015 and multiplied by 366 days for FYE 2008, FYE 2012 and FYE 2016 and multiplied by 90 days for FPE 2016 and FPE 2017.

(3) Computed based on inventory as at year end over cost of sales for the year multiplied by 365 days for FYE 2009, FYE 2010, FYE 2011, FYE 2013, FYE 2014, FYE 2015 and multiplied by 366 days for FYE 2008, FYE 2012 and FYE 2016 and multiplied by 90 days for FPE 2016 and FPE 2017.

(4) Computed based on current assets over current liabilities as at year/period end from FYE 2008 – FYE 2016, FPE 2016 and FPE 2017.

(5) Computed based on the bank borrowings over the total shareholders’ funds of the Group as at year/period end from FYE 2008 – FYE 2016, FPE 2016 and FPE 2017.

4.1 TRADE RECEIVABLES

As at 31 March 2017, the trade receivables of the Group amounting to approximately RM2.95 million which can be analysed as follows:

	Within credit period	Exceeding credit period			
	Neither past due nor impaired	1 to 30 days past due but not impaired	31 to 60 days past due but not impaired	More than 60 days past due but not impaired	Total
Manufacturing segment					
Trade receivables (RM'000)	2,332	427	29	159	2,947
% of total trade receivables (%)	79.1	14.5	1.0	5.4	100.0
Subsequent collections up to the LPD (RM'000)	1,732	408	-	41	2,181
Trade receivables net of subsequent collections (RM'000)	600	19	29	118	766
% of trade receivables net of subsequent collections to total trade receivables (%)	78.3	2.5	3.8	15.4	100.0
Turnover period (Days)					59

Trade receivables are recognised at their invoice amount which represents their fair value on initial recognition.

For the past financial years from FYE 2008 to FYE 2016, the Group's normal trade credit term ranges from 30 days to 90 days.

The Group's policy in assessing its customer's credibility and credit period is made on an individual basis, recommended by the Group's sales team and evaluated by the Group's credit control team. Approvals were sought from designated authorised management personnel depending on the credit limit to mitigate the exposure to the credit risks of its customers before trading with them. For existing customers, the Group also review their current credit standing with the Group before accepting any new purchase orders, paying particular attention to the project that they are undertaking to gauge if they will face any problems completing them. In addition, the Group regularly reviews its trade receivables aging and monitors its debt collection process to minimise any long outstanding debts. All of the Group's outstanding debts are closely monitored by the Group's management personnel.

As at LPD, approximately RM2.18 million or 73.9% of the Group's total trade receivables as at 31 March 2017 has been collected.

As at 31 March 2017, trade receivables exceeding credit period but not impaired of approximately RM0.16 million. In view of the subsequent collection as at LPD of RM0.04 million, the Board is of the opinion that the remaining outstanding balances of RM0.12 million are recoverable as the Group maintains good business relationship with on-going business transactions with the relevant customers. Accordingly, no impairment has been made.

The Group's overall trade receivables turnover period is within the credit term for the respective financial years under review except for FYE 2011 and FYE 2014 which recorded a higher trade receivables turnover period of 132 days and 83 days respectively. In FYE 2011, the higher trade receivables turnover period was mainly due to higher revenue recorded in the last quarter of the financial year in which majority of the revenue are still within credit terms. Whereas for FYE 2014, the higher trade receivables turnover period was mainly due to dispute with a trade debtor which was then resolved in FYE 2015.

In FYE 2016, the Group recorded a lower trade receivables turnover period of 21 days as a result of tighter credit control measures adopted.

For FPE 2017, the Group recorded a trade receivable turnover period of 59 days, which is within the Group’s normal trade credit term ranges from 30 days to 90 days.

The Group's trade receivables' provisioning policy is in line with the Financial Reporting Standards 137 - Provisions, Contingent Liabilities and Contingent Assets, where the collectability of amount due from its customer is reviewed on an individual and collective basis to ensure better provisions estimates.

4.2 TRADE PAYABLES

As at 31 March 2017, the trade payables of the Group amounting to approximately RM1.98 million which can be analysed as follows:

	The Group				
		Exceeding credit period			
	Within credit term	**1 to 30 days past due**	**31 to 60 days past due**	**More than 60 days past due**	**Total**
Manufacturing segment					
Trade payables (RM’000)	1,254	186	66	470	1,976
% of total trade payables (%)	63.5	9.4	3.3	23.8	100.0
Subsequent payments up to the LPD (RM’000)	1,154	186	66	377	1,783
Trade payables net of subsequent payments (RM’000)	100	-	-	93	193
% of trade payables net of subsequent payments to total trade payables (%)	51.8	-	-	48.2	100.0
Turnover period (Days)					55

The normal trade credit term granted to the Group ranges from 30 days to 90 days for the financial years under review. The Group’s overall trade payables turnover period was within the normal credit terms granted to the Group except for FYE 2008 due a dispute with a trade creditor amounting to RM3.50 million, that was subsequently settled out of court over fifteen (15) monthly instalments commencing from February 2009.

As at LPD, there is no dispute with respect to the trade payables and no legal action has been initiated by suppliers to demand for payment against the Group. As at the LPD, the Group had made subsequent payment of RM1.78 million, representing 90.2% of the Group’s total trade payable as at 31 March 2017.

In FPE 2017, the Group recorded a trade payables turnover period of 55 days, which is within the normal trade credit term granted to the Group ranges from 30 days to 90 days.

The trade payables turnover period is shorter than the trade receivables turnover period as approximately 60% of raw materials purchased are imported and are paid in cash upon receipt of goods.

4.3 INVENTORIES

As at 31 March 2017, the inventories of the Group amounting to approximately RM3.55 million which can be analysed as follows:

	The Group				
	1 to 30 days RM'000	**31 to 60 days RM'000**	**61 to 90 days RM'000**	**91 days and above RM'000**	**Total RM'000**
<u>Manufacturing segment</u>					
Inventories (RM'000)	1,976	232	252	1,092	3,552
Turnover period (Days)					99

The Group's inventories mainly consist of steel plates and bars, chassis, pipes, flanges, glass roving, emblet, resin, tanks, consumables and accessories. The Group stocked mainly fast moving items except for consumables and accessories.

The Group conducts a monthly management meeting to review the stockholding level and inventory ageing analysis. Approval is required from authorised personnel at management level for replenishment of stocks and impairment on slow moving stocks.

The Group's inventory turnover period ranges from 74 days to 142 days for FYE 2008 to FYE 2016 and FPE 2017. Higher inventory turnover period for FYE 2008, FYE 2010 and FYE 2013 was mainly due to high work-in-progress stocks on projects which was secured towards end of the financial year that were completed in the subsequent financial year.

The Group's inventory turnover period as at 31 December 2016 had decreased from 99 days as at 31 December 2015 to 74 days mainly due to lower work-in-progress stocks as most jobs were completed and delivered in FYE 2016.

As at 31 March 2017, the Group's inventory turnover period had increased from 74 days as at 31 December 2016 to 99 days mainly due to higher raw material stocks as the Group had purchased raw materials in larger bulk to further reduce its cost of sales. The Group undertook such approach as it had additional working capital from the proceeds of the Disposals.

The rest of this page is intentionally left blank

4.4 GEARING RATIO

The total borrowings of the Group are as follows:

	Audited									Unaudited	
	FYE 2008	**FYE 2009**	**FYE 2010**	**FYE 2011**	**FYE 2012**	**FYE 2013**	**FYE 2014**	**FYE 2015**	**FYE 2016**	**FPE 2016**	**FPE 2017**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Current											
Bank overdrafts	2,663	3,527	4,664	5,315	4,398	4,997	4,602	5,177	-	4,857	12
Bankers' acceptance	2,488	1,708	1,588	2,863	3,369	6,104	7,273	6,609	1,225	6,280	-
Finance lease liabilities	784	638	131	126	81	79	98	93	97	94	98
	5,935	5,873	6,383	8,304	7,848	11,180	11,973	11,879	1,322	11,231	110
Non-current											
Finance lease liabilities	982	345	213	87	49	418	489	396	299	371	273
Total borrowings	**6,917**	**6,218**	**6,596**	**8,391**	**7,897**	**11,598**	**12,462**	**12,275**	**1,621**	**11,602**	**383**
Gearing ratio (times)	0.18	0.16	0.19	0.28	0.28	0.42	0.53	0.71	0.04	0.69	0.01

The Group's gearing ratio ranges from 0.04 times to 0.71 times over the financial years under review.

The overall increase in gearing ratio over the financial years under review was mainly due to additional trade facilities utilised to finance the working capital requirements of the Group.

As at 31 December 2016, the Group's total borrowings decreased from RM12.28 million as at 31 December 2015 to RM1.62 million mainly due to substantial payment of bank borrowings by utilising part of the proceeds from the Disposals. As a result, the Group's gearing decreased from 0.71 times to 0.04 times.

As at 31 March 2017, the Group's total borrowings decreased from RM11.60 million as at 31 March 2016 to RM0.38 million mainly due to repayment of bank borrowings and available working capital from the proceeds of the Disposals. As a result, the Group's gearing decreased from 0.69 times to 0.01 times.

4.5 CURRENT RATIO

	Audited									Unaudited	
	FYE 2008	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015	FYE 2016	FPE 2016	FPE 2017
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Current ratio (times)	1.41	1.70	1.31	0.96	0.97	0.99	0.75	0.46	5.31	0.37	10.18

The Group’s current ratio ranges from 0.46 times to 5.31 times over the financial years under review.

The Group’s current ratio fell below 1.0 times from FYE 2011 to FYE 2015 mainly due to the increased utilisation of short term borrowings to finance the working capital requirements of the Group.

The Group's current ratio as at 31 December 2016 was 5.31 times. The improvement in the Group's current ratio was attributable to the Disposals which were completed on 7 December 2016.

As at 31 March 2017, the Group's current ratio has improved to 10.18 times after the repayment of bank borrowings and increase in cash and cash equivalents after the completion of the Disposals.

The rest of this page is intentionally left blank

5.0 ORDER BOOK

The summary of the Group's order book as at 21 July 2017 by products and services is as follows:

Product/services	RM'000	%
Tanks	6,906	21.2
LPG vessels	5,814	17.8
Road tankers	5,021	15.4
M&E services	9,600	29.4
Pressure vessels	3,887	11.9
Metal forming services	1,356	4.2
Heat treatment services	24	0.1
Total	**32,608**	**100.0**

The delivery schedule of CN Asia's products and services based on its order book as at 21 July 2017 are as follows:

		FYE 2017	FYE 2018	Total
Country	**Products**	**RM'000**	**RM'000**	**RM'000**
Brunei	Pressure vessels	252	-	252
Philippines	Road tankers	1,543	-	1,543
Singapore	Metal forming	33	-	33
	Tank	66	-	66
Hong Kong	LPG vessels	1,775	1,499	3,274
Malaysia	LPG vessels	2,300	240	2,540
	M&E services	3,270	6,330	9,600
	Metal forming	1,323	-	1,323
	Pressure vessels	2,817	818	3,635
	Heat treatment	24	-	24
	Road tankers	3,478	-	3,478
	Tank	6,730	110	6,840
		23,611	**8,997**	**32,608**

Notwithstanding the above, as at the LPD, the Group has tendered for RM161.86 million worth of jobs.

Under the existing tender practice, the Group will first tender for a job and state its pricing together with its payment terms. The payment terms offered by CN Asia will generally include an upfront deposit by the customer and may include the request for letters of credit from the customers in order to secure payment.

However, customers will often proposed less favourable payment terms to CN Asia whereby the deposit payment will be reduced or waived altogether. Under such situation, CN Asia will not accept the job.

Resulting from this practice, the success rate in job tender is generally at about 10%. The current practice has enabled the company to reduce its provision for doubtful debts/impairment on trade receivables and bad debts written-off.

UHY

UHY (AF1411)
Chartered Accountants
Suite 11.05, Level 11
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur

Phone +60 3 2279 3088
Fax +60 3 2279 3099
Email uhykl@uhy.com.my
Web www.uhy.com.my

Date: 18 AUG 2017

The Board of Directors
CN Asia Corporation Bhd
(Company No. 399442-A)
Lot 7907, Batu 11
Jalan Balakong
43300 Seri Kembangan
Selangor

Dear Sirs,

PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF CN ASIA CORPORATION BHD ("CN ASIA" OR "THE COMPANY") AND ITS SUBSIDIARIES (COLLECTIVELY KNOWN AS "CN ASIA GROUP" OR "THE GROUP") AS AT 31 DECEMBER 2016 ("PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION")

We have completed our assurance engagement to report on the compilation of the Pro forma Consolidated Statements of Financial Position prepared by the Directors of the Company ("Directors").

The Pro forma Consolidated Statements of Financial Position and the notes set out in Appendix A of this letter are compiled by the Directors for illustrative purposes only for inclusion into the circular to shareholders of CN Asia Group in connection with the proposed regularisation plan of the Group ("Proposed Regularisation Plan").

The Pro forma Consolidated Statements of Financial Position have been compiled by the Directors to illustrate the impact on the Consolidated Statements of Financial Position of CN Asia Group as at 31 December 2016 had the transactions set out in notes to Appendix A of the Pro forma Consolidated Statements of Financial Position in this letter been effected on that date.

As part of this process, information about the financial position has been extracted by the Directors from the relevant financial statements as at 31 December 2016, on which an audited consolidated financial statements has been prepared.

The Directors' Responsibility for the Pro forma Consolidated Statements of Financial Position

The Directors are responsible for compiling the Pro forma Consolidated Statements of Financial Position on the basis of the Proposed Regularisation Plan and the basis described in notes to Appendix A of the Pro forma Consolidated Statements of Financial Position.

Our Responsibilities

Our responsibility is to express an opinion as required by Bursa Malaysia Securities Berhad ("Bursa Securities"), about whether the Pro forma Consolidated Statements of Financial Position have been compiled, in all material respects, by the Directors for the Proposed Regularisation Plan of CN Asia.

We conducted our engagement in accordance with the Malaysian Approved Standard on Assurance Engagements, ISAE 3420 *Assurance Engagements to Report on the Compilation of Pro forma Financial Information Included in a Prospectus* issued by the Malaysian Institute of Accountants. This standard requires us to comply with the ethical requirements and plan and perform procedures to obtain reasonable assurance on whether the Directors have compiled, in all material respects, the Pro forma Consolidated Statements of Financial Position on the basis of the applicable criteria.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro forma Consolidated Statements of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro forma Consolidated Statements of Financial Position.

The purpose of the Pro forma Consolidated Statements of Financial Position included in the circular to shareholders is solely to illustrate the impact of significant events or transactions on unadjusted financial information of the entity as if the events had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions would have been as presented.

A reasonable assurance engagement to report on whether the Pro forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of Pro forma Consolidated Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence on whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The Pro forma Consolidated Statements of Financial Position reflect the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the events or transactions in respect of which the Pro forma Consolidated Statements of Financial Position has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro forma Consolidated Statements of Financial Position.

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

Opinion

In our opinion:

(i) the Pro forma Consolidated Statements of Financial Position, which have been prepared by the Directors, have been properly prepared on the basis stated in the accompanying Note 1 in Appendix A to the Pro forma Consolidated Statements of Financial Position using financial statements prepared in accordance with Malaysian Financial Reporting Standards and in a manner consistent with both the format to the financial statements and the accounting policies adopted by the Company; and

(ii) each material adjustments made to the information used in the preparation of the Pro forma Consolidated Statements of Financial Position is appropriate for the purpose of preparing the Pro forma Consolidated Statements of Financial Position.

Other Matters

This letter has been prepared for the purpose of inclusion in the circular to shareholders of CN Asia. Our work had been carried out in accordance with Malaysian Approved Standards on Assurance Engagements and accordingly should not be relied upon as if it had been carried out in accordance with standards and practices in other jurisdictions. Therefore, this letter is not appropriate in other jurisdictions and should not be used or relied upon for any purpose other than the Proposed Regularisation Plan described above. We accept no duty or responsibility to and deny any liability to any party in respect of any use of, or reliance upon, this letter in connection with any type of transaction.

Yours faithfully,

Uhy

UHY
Firm Number: AF 1411
Chartered Accountants

TAN TIAN WOOI
Approved Number: 2969/05/18 (J)
Chartered Accountant

Kuala Lumpur, Malaysia

CN ASIA GROUP
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

The Pro forma Consolidated Statements of Financial Position as set out below are provided for illustrative purposes only to show the effects on the Audited Consolidated Statements of Financial Position of the CN Asia Group as at 31 December 2016 had the Revised Presentation and the Proposed Capital Reduction has been effected on that date, and should be read in conjunction with the notes accompanying the Pro forma Consolidated Statements of Financial Position of the Group.

			Pro forma I	Pro forma II
	Note	Audited Consolidated Statements of Financial Position as at 31 December 2016 RM'000	After the translation to no-par value regime RM'000	After Pro forma I and Proposed Capital Reduction RM'000
ASSETS				
Non-current Assets				
Property, plant and equipment		11,945	11,945	11,945
Deferred tax assets		685	685	685
Total Non-current Assets		12,630	12,630	12,630
Current Assets				
Inventories		2,777	2,777	2,777
Trade receivables		1,083	1,083	1,083
Other receivables, deposits and prepayment		727	727	727
Current tax asset		6	6	6
Fixed deposit with licensed banks		25,800	25,800	25,800
Cash and bank balances	3.1	2,951	2,951	2,211
Total Current Assets		33,344	33,344	32,604
Total Assets		45,974	45,974	45,234
Equity				
Share capital	3.2	45,383	48,875	38,386
Share premium	3.3	3,492	-	-
Translation reserve		266	266	266
(Accumulated losses)/Retained earnings	3.4	(9,749)	(9,749)	-
Total equity attributable to the owners of the Company		39,392	39,392	38,652

CN ASIA GROUP
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 (CONT'D)

		Pro forma I	Pro forma II
	Audited Consolidated Statements of Financial Position as at 31 December 2016 RM'000	After the translation to no-par value regime RM'000	After Pro forma I and Proposed Capital Reduction RM'000
LIABILITIES			
Non-current Liabilities			
Bank borrowings	299	299	299
Total Non-current Liabilities	299	299	299
Current Liabilities			
Trade payables	1,772	1,772	1,772
Other payables and accruals	2,798	2,798	2,798
Bank borrowings	1,322	1,322	1,322
Current tax liabilities	391	391	391
Total Current Liabilities	6,283	6,283	6,283
Total Liabilities	6,582	6,582	6,582
Total Equity and Liabilities	45,974	45,974	45,234
Number of ordinary shares ('000)	45,383	45,383	45,383
NA (RM'000)	39,392	39,392	38,652
NA per share (RM)	0.87	0.87	0.85
Borrowings (All interest bearing debts) (RM'000)	1,621	1,621	1,621
Gearing (Times)	0.04	0.04	0.04

[The rest of this page is intentionally left blank]

CN ASIA GROUP
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

1. Basis of Preparation

The Pro forma Consolidated Statements of Financial Position of the Group as at 31 December 2016, of which the Directors are solely responsible, has been prepared for illustration purposes only, to show the effects on the consolidated statements of financial position of the Group had the Pro forma Adjustments in Note 2 below have been effected on that date, and should be read in conjunction with the notes accompanying thereto.

The Pro forma Consolidated Statements of Financial Position of the Group as at 31 December 2016 has been prepared based on the audited consolidated statements of financial position of the Group as at 31 December 2016 and in a manner consistent with both the format of the financial statements and accounting policies adopted by the Group in the preparation of its financial statements as at 31 December 2016, which have been prepared by the Directors in accordance with the Malaysian Financial Reporting Standards.

2. Pro forma Adjustments

The Pro forma Consolidated Statements of Financial Position of CN Asia has been prepared assuming the following Pro forma Adjustments are effected as at 31 December 2016.

2.1 Pro Forma I: Translation to No-par Value Regime – Companies Act, 2016

The Pro forma Consolidated Statements of Financial Position has been updated to reflect the Companies Act, 2016 ("Companies Act") which has taken effect as at 31 January 2017. The Companies Act introduces a no-par value regime where companies will not be required to set any minimum value for its shares. Hence, share premium account will no longer be required and any existing share premium account will become part of the Company's share capital.

There is no impact to the number of ordinary shares in issue or entitlement of the members as a result of this translation.

2.2 Pro Forma II: Proposed Capital Reduction

The Proposed Capital Reduction exercise to be carried out by the Company, pursuant to Section 116 of the Companies Act to reduce the share capital of the Company from RM48,874,465 to RM38,385,554 by the cancellation of the share capital of the Company that has been lost or is unrepresented by available assets to the extent of RM10,488,911.

The amount of RM10,488,911, being the credit arising from the aforesaid cancellation of share capital, shall be applied to eliminate the accumulated losses of the Company as at 31 December 2016 to the extent of RM10,488,911.

The Proposed Capital Reduction does not entail any outflow of cash or change in the net assets of the Company (save for estimated expenses to be incurred in relation to the Proposed Regularisation Plan of RM740,000). There will be no change in the total number of issued shares in the Company held by the shareholders immediately after the Proposed Capital Reduction, nor will the Proposed Capital Reduction involve the payment to any shareholders of any paid-up share capital of the Company.

CN ASIA GROUP
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 (CONT'D)

2.2 Pro Forma II: Proposed Capital Reduction (Cont'd)

The Proposed Capital Reduction will not result in any adjustment to the share price of the Company.

3. Notes to the Pro forma Consolidated Statements of Financial Position as at 31 December 2016

3.1 Cash and Bank Balances

	RM'000
As at 31 December 2016	2,951
Arising from the Proposed Capital Reduction	(740)
As per Pro forma II	**2,211**

3.2 Share Capital

	RM'000
As at 31 December 2016	45,383
Translation to no-par value regime	3,492
As per Pro forma I	**48,875**
Arising from the Proposed Capital Reduction	(10,489)
As per Pro forma II	**38,386**

3.3 Share Premium

	RM'000
As at 31 December 2016	3,492
Translation to no-par value regime	(3,492)
As per Pro forma I and Pro forma II	-

3.4 (Accumulated Losses)/Retained Earnings

	RM'000
As at 31 December 2016	(9,749)
Estimated expenses for the Proposed Regularisation Plan	(740)
Arising from the Proposed Capital Reduction	10,489
As per Pro forma II	-

STAMPED FOR IDENTIFICATION PURPOSES ONLY
UHY CHARTERED ACCOUNTANTS (AF1411)

Summary of the risk management and internal control review report on CN Asia by GovernanceAdvisory.com Sdn Bhd dated 10 February 2017 are set out below:

1. Scope of work

The scope of work for the risk management and internal control review is as set out but not limited to the following:

(a) To evaluate the systems of internal controls based upon the Group's standard operational manuals and identify its weaknesses;

(b) To establish an overview of the adequacy and effectiveness of system of Internal Control within the Group in order to provide reasonable assurance in compliance with the established policies, procedures and applicable regulations;

(c) To review the adequacy of the internal control systems in addressing key risk areas identified by the Group;

(d) To review and evaluate existing CN Asia's risk management framework; and

(e) To review CN Asia's action plans for the weaknesses identified if the issues, control vulnerabilities and deficiencies highlighted are subsequently rectified.

Scope of work for this Risk Management and Internal Control Systems review covers from 1 March to 31 May 2016.

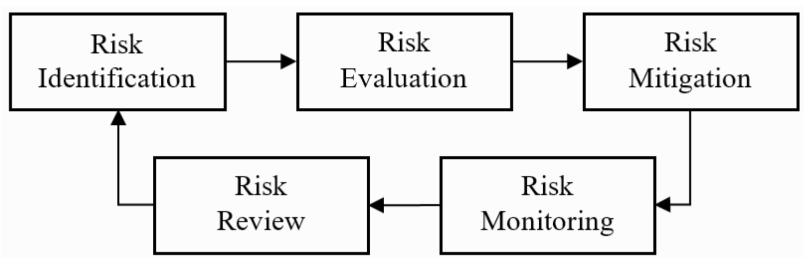
2. Summary of observation

<u>Risk management:</u>

The CN Asia's risk management framework is maintained and monitored by its risk management committee ("RMC"), which is administrated by an independent consulting firm, to achieve its risk management objectives. In order to attain this objective, the Group has:

- adopted a structured and systematic risk assessment, monitoring and reporting framework; and
- enhanced the culture of risk awareness in the business processes through risk owners' accountability and sign-off for action plans and continuous monitoring by the various departments within the Group.

CN Asia adopted Risk Management framework which consists of following core elements combine to provide the definition of effective business risk assessment:



<u>Internal Control:</u>

A walk-through test was performed for the policies and procedures of CN Asia which include the financial management, procurement and payment, sales and receivable, human resource management, property, plant and equipment as well as inventory management.

3. Summary of detailed observations

The summary of the risk, the measures suggested and its compliance dates are set out below:

	Category	Observations & Risks	Measures suggested	Date of Compliance
1	Governance and Term of Reference ("TOR")	• There was absence of TOR of RMC. • Risk Management Reports attention to Audit Committee ("AC") member instead of the Board. • AC's risk assessment functions were not formally established in the TOR of the AC.	• To formalise the TOR of RMC which are setting out the roles and responsibilities of the RMC. • To enhance and formalise TOR for respective Committee.	Implemented with effect from 15 November 2016. The TOR of RMC was approved by the Board on the same date.
2	Linkage to business and operational planning and strategies	There was no formal approach to link the Group's risks to its business plans and strategies. Risk was managed in the past in less structured manner.	• To re-assess strategic risk of the Group. • To link corporate objectives, business plans to the risks identified. Risks and actions plans should be linked to business plans in order to add value to the business through implementation of risk assessment.	Implemented with effect from 15 November 2016. The strategic risk management and action plans of the Group was tabled and deliberated by the Board on 15 November 2016.
3	Overdue cheques issued are not rectified	There was no evidence that bank reconciliations performed being signoff by reviewer; and review noted that long outstanding reconciling item more than the cheque validity period, hence might result in: • Discrepancies between the bank records and Company records may not be detected; • Lack of accountability on the bank reconciliation; and • Losses or diversion of funds may go undetected.	• The management to ensure that preparer of each cheque to indicate the reason for the long outstanding cheque not being cleared and/or reversed the cheque payment when it needs to be cancelled. • To ensure accountability, the reviewer to sign off on the bank reconciliation after reviewed.	Implemented with effect from 31 October 2016.

	Category	Observations & Risks	Measures suggested	Date of Compliance
4	Independent check and balance and improvement opportunities on petty cash claim	There was no limit being set for each petty cash claim hence might result in abuse of using petty cash.	The management to establish the petty cash limit of RM100 for each claim.	The petty cash limit of RM100 for each claim was established in the Petty Cash Policy and implemented with effect from 15 November 2016.
5	Control over accounting transactions adjustment	Risk of unauthorised journal vouchers and incomplete or inaccurate information for processing of transactions and journal entries could occur.	The management should review and approve the journal vouchers.	Implemented with effect from 31 October 2016.
6	Inconsistent practices – stock control	Inconsistency noted between current practice and documented standard operating procedures. Without a customer stock record, the management might loss track on the total number of customer stocks had been received from customer and delivery back to customer.	Storekeeper is to adhere to recording in accordance with the standard operating procedures of the Company or revised the standard operating procedures accordingly.	Adhering to standard operating procedures with effect from 28 July 2016.
7	Underinsured fixed assets and money in transit	Review noted assets were underinsured for fire, all risks & money insurance coverage. Insurance coverage may be insufficient to cover losses in the event of an incident	To introduce standard guideline for insurance basis (i.e. by percentage of fixed assets value) and coverage which is sufficient to cover all potential losses, and indemnify companies against possible liabilities arising from operations to be adopted.	Implemented with effect from 1 January 2017.

4. Conclusion

GovenanceAdvisory.com Sdn Bhd is of the opinion that the key risk management and internal controls practice within CN Asia Group are rated as satisfactory.

Based on their review, the Group had made considerable progress in establishing risk assessment within the Group including successfully rolling out risk assessment to its key operating subsidiaries. In addition, some weaknesses in the application of control procedures were identified and brought up the control weaknesses highlighted to management for immediate rectification. The weaknesses concerned were not sufficiently critical to compromise the system of internal control. The effect on the internal control system for CN Asia is more pervasive and the achievement of important operating or control objectives was reasonably assured.

1. RESPONSIBILITY STATEMENT

This Circular has been seen and approved by the Board and they collectively and individually accept full responsibility for the accuracy, completeness and correctness of the information given 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.

2. MATERIAL LITIGATION

Neither the Company nor any of its subsidiaries are engaged in any material litigations, claims or arbitrations, either as plaintiff or defendant, which may have a material effect on its financial position and the Board does not have any knowledge of any proceeding, pending or threatened, against CN Asia and/or its subsidiaries or any facts which is likely to give rise to any proceedings which might materially and adversely affect the financial position or business of the Company and/or its subsidiaries as at the LPD.

3. MATERIAL CONTRACTS

Save as disclosed below, the Company and its subsidiaries has not entered into any material contracts (not being contracts entered into in the ordinary course of business) within the 2 years immediately prior to the printing of this Circular:

(i) Tenancy agreement dated 15 May 2017 between Chip Ngai and LTK Development where Chip Ngai will lease a parcel of leasehold land measuring approximately 4,849 sqm held under Pajakan Mukim No. 8925, Lot 1196, Tempat Jalan Balakong Serdang, Pekan Baru Sungai Besi, Daerah Petaling, Negeri Selangor together with a single storey factory and a guardhouse erected thereon from LTK Development for the term commencing from 1 April 2017 up to 6 December 2019 at the rent of RM2,000 per month.

(ii) Tenancy agreement dated 15 May 2017 between Chip Ngai and LTK Development where Chip Ngai will lease a parcel of leasehold land measuring approximately 4,760 sqm held under H.S.(M) 20481, PT 17042, Tempat Jalan Balakong Serdang, Mukim Petaling, Daerah Petaling, Negeri Selangor from LTK Development for the term commencing from 1 April 2017 up to 6 December 2019 at the rent of RM1,000 per month.

(iii) Sale and Purchase Agreement dated 13 June 2016 for a parcel of leasehold land measuring approximately 9,669 sqm held under H.S.(M) 20480, PT 17040, Tempat Jalan Balakong, Serdang, Mukim and District of Petaling, State of Selangor together with 1 storey steel frame structure annexed with 2 storey office, 1 storey steel frame structure detached factory, a 5 storey office building ("Parcel 1") entered into between Chip Ngai (as vendor) and LTK Properties (as purchaser) for a total cash consideration of RM21,856,200.00 ("SPA 1").

(iv) Tenancy agreement dated 13 June 2016 between Chip Ngai and LTK Properties where Chip Ngai will lease Parcel 1 from the purchaser for a term of up to 36 months from the date of completion of SPA 1 at the rent of RM22,000 per month. The tenancy agreement was re-stated by the parties on 7 December 2016 to reflect the actual date of commencement of the Tenancy of Parcel 1.

(v) Sale and Purchase Agreement dated 13 June 2016 for a parcel of leasehold land measuring approximately 6,559 sqms held under H.S.(M) 20479, PT No. 17041, Tempat Jalan Balakong, Serdang, Mukim and District of Petaling, State of Selangor ("Parcel 2") entered into between Douwin (as vendor) and LTK Properties (as purchaser) for a total cash consideration of RM14,826,300.00 ("SPA 2").

(vi) Tenancy agreement dated 13 June 2016 between Douwin and LTK Properties where Douwin will lease Parcel 2 from the purchaser for a term of up to 36 months from the date of completion of SPA 2 at the rent of RM8,000 per month. The tenancy agreement was re-stated by the parties on 7 December 2016 to reflect the actual date of commencement of the Tenancy of Parcel 2.

(vii) Sale and Purchase Agreement dated 22 May 2015 for a parcel of leasehold land measuring approximately 4,849 sqm held under Pajakan Mukim No. 8925, Lot 1196, Jalan Balakong Serdang, Pekan Baru Sungai Besi, Daerah Petaling, Negeri Selangor together with a single storey detached factory cum warehouse building erected thereon entered into between Marvellous Production Sdn Bhd (as vendor) and CN Asia Capital Sdn Bhd (as purchaser) for a total consideration of RM10,800,000.00. The proposed acquisition was aborted on 29 April 2016.

(viii) Sale and Purchase Agreement dated 22 May 2015 for a parcel of leasehold land measuring approximately 4,761.57 sqm held under H.S.(M) 20481, PT 17042, Jalan Balakong Serdang, Mukim Petaling, Daerah Petaling, Negeri Selangor entered into between Crystal Bond Sdn Bhd (as vendor) and CN Asia Capital Sdn Bhd (as purchaser) for a total consideration of RM9,700,000.00. The proposed acquisition was aborted on 29 April 2016.

4. MATERIAL COMMITMENT AND CONTINGENT LIABILITIES

4.1 Material commitment

As at the LPD, the Board is not aware of any material commitment, incurred or known to be incurred, which may have a material impact on the results or financial position of the Group.

4.2 Contingent liabilities

Save as disclosed below, as at the LPD, the Board is not aware of any contingent liabilities, incurred or known to be incurred, which upon becoming enforceable, may have a substantial impact on the ability of the Group to meet its obligations as and when they fall due:

	RM'000
Corporate guarantee granted to a subsidiary	8
Banker's guarantee	133
	141

5. LETTERS OF CONSENT

M&A Securities, the Adviser for the Proposed Regularisation Plan, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name and all references thereto in the form and context in which they appear in this Circular.

UHY, being the Reporting Accountants for the Proposed Regularisation Plan, has given and has not subsequently withdrawn its written consent to the inclusion of their name and letter on the pro forma consolidated statement of audited financial position of the CN Asia Group as at 31 December 2016 and all reference thereto, in the form and context in which they are contained in this Circular.

Smith Zander International Sdn Bhd, being the IMR for the Proposed Regularisation Plan, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name, the IMR report titled "Independent Market Research Report on the Storage Tank Industry in Malaysia, the Pressure Vessel Industry in Malaysia, the Oil and Gas and Petrochemical Industries in Malaysia, the LPG Industry in Hong Kong and the Sewerage Treatment Industry in Philippines" and all references thereto, in the form and context in which they appear.

GovernanceAdvisory.com Sdn Bhd, being the internal control consultant for the Proposed Regularisation Plan, has given and has not subsequently withdrawn its written consent to the inclusion in this Circular of its name, the risk management and internal control review report and all references thereto, in the form and context in which they appear.

6. DECLARATION OF CONFLICT OF INTERESTS

M&A Securities, UHY, Smith Zander International Sdn Bhd and GovernanceAdvisory.com Sdn Bhd have given their confirmations that they are not aware of any existing conflict of interest nor of any circumstances which would or are likely to give rise to a possible conflict of interest by virtue of their roles as the Adviser, Reporting Accountants, IMR and internal control consultant to CN Asia for the Proposed Regularisation Plan.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of the Company during normal office hours from Mondays to Fridays (except for public holidays) for the period commencing from the date of this Circular up to the date of the EGM:

(a) Memorandum and Articles of Association of the Company;

(b) Audited financial statements of CN Asia for the 2 FYEs 31 December 2015 to 2016 and unaudited financial statements of CN Asia for the 3-month FPE 31 March 2017;

(c) Pro forma consolidated statement of audited financial position of CN Asia Group as at 31 December 2016, together with the notes and the Reporting Accountants' letter thereon as set out in Appendix IV of this Circular;

(d) The IMR report;

(e) The risk management and internal control report;

(f) The material contracts referred to in Section 3 above; and

(g) Letter of consent referred to in Section 5 above.

CN ASIA CORPORATION BHD

(Company No.: 399442-A)
(Incorporated in Malaysia under the then Companies Act, 1965)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting ("EGM") of CN Asia Corporation Bhd ("Company") will be held at Room Congress 1, Lower Ground Level, Palace of the Golden Horses, Jalan Kuda Emas, MINES Wellness City, 43300 Seri Kembangan, Selangor Darul Ehsan on Wednesday, 13 September 2017 at 10:00 a.m. or any adjournment thereof for the purpose of considering and, if thought fit, passing the following resolution:

SPECIAL RESOLUTION

PROPOSED REDUCTION OF THE EXISTING SHARE CAPITAL OF CN ASIA CORPORATION BHD FROM RM48,874,465 TO RM38,385,554 BY THE CANCELLATION OF THE SHARE CAPITAL OF THE COMPANY THAT HAS BEEN LOST OR IS UNREPRESENTED BY AVAILABLE ASSETS TO THE EXTENT OF RM10,488,911 PURSUANT TO SECTION 116 OF THE COMPANIES ACT, 2016 ("PROPOSED CAPITAL REDUCTION")

"**THAT** subject to the confirmation of the High Court of Malaya and the approvals from relevant authorities being obtained where necessary, approval be and is hereby given for the implementation of the Proposed Capital Reduction pursuant to Section 116 of the Companies Act, 2016;

THAT the issued and paid-up capital of the Company be reduced from RM48,874,465 to RM38,385,554 and that such reduction be effected and satisfied by the cancellation of the share capital of the Company that has been lost or is unrepresented by available assets to the extent of RM10,488,911;

AND THAT the Board be and is hereby authorised with full power to make any modifications, variations and / or amendments in any manner as may be in the best interest of the Company or as may be required by the relevant authority / authorities to give effect to the Proposed Capital Reduction, and to take all such steps as they may deem necessary or expedient in the best interests of the Company to implement, finalise and give full effect to the Proposed Capital Reduction."

BY ORDER OF THE BOARD OF
CN ASIA CORPORATION BHD

LIM PAIK GOOT (MIA 13304)
WONG CHOOI FUN (MAISCA 7027549)
GOH CHOOI WOAN (MAISCA 7056110)
Company Secretaries

Kuala Lumpur
18 August 2017

Notes:

1. *Only depositors whose names appear in the record of depositors as at 7 September 2017 shall be regarded as members and entitled to attend, speak and vote at the meeting or appoint a proxy or proxies to attend and/or vote in his stead.*

2. *A member entitled to attend and vote at the meeting is entitled to appoint up to two (2) proxies to attend, participate, speak and vote at the same meeting instead of him and that 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.*

3. *Where a member appoints two (2) proxies, the appointment shall be invalid unless the member specifies the proportion of his shareholdings to be represented by each proxy.*

4. *Where a member of the Company is an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) the securities account ("omnibus account"), there shall be no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each omnibus account it holds.*

5. *The instrument appointing a proxy in the case of an individual shall be under the hand of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation, either under the corporation's common seal or under the hand of an officer or attorney duly authorised. Any alteration to the proxy form must be initialled.*

6. *The Proxy Form must be deposited at the registered office of the Company at Lot 7907, Batu 11, Jalan Balakong, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia (Attn.: The Company Secretaries), not less than twenty four (24) hours before the time appointed for the taking of the poll or any adjournment thereof.*

7. *The resolution as set out in this notice of EGM is to be voted by poll.*

8. *By submitting the duly executed Proxy Form, a member and his/her proxy consent to the Company (and/or its agents/service providers) collecting, using and disclosing the personal data therein in accordance with the Personal Data Protection Act 2010 for the purposes of this meeting and any adjournment thereof.*

PROXY FORM
(To be completed in block letters)

CN ASIA CORPORATION BHD
(Company No.: 399442-A)
(Incorporated in Malaysia under the then Companies Act, 1965)

No. of Shares held	CDS Account No.

*I/We ....

I/C or Passport or Company No. .... of ....

....

being a *member/members of the abovenamed Company, hereby appoint *THE CHAIRMAN OF THE MEETING or:

Full name (in Block Letters)	I/C/Passport No.	Proportion of shareholdings	
		No. of Shares	%
Address			

Full name (in Block Letters)	I/C/Passport No.	Proportion of shareholdings	
		No. of Shares	%
Address			

as *my/our proxy/proxies to attend and vote for *me/us on *my/our behalf at the Extraordinary General Meeting of the Company to be held at Room Congress 1, Lower Ground Level, Palace of the Golden Horses, Jalan Kuda Emas, MINES Wellness City, 43300 Seri Kembangan, Selangor Darul Ehsan on Wednesday, 13 September 2017 at 10:00 a.m. or any adjournment thereof, in respect of *my/our shareholding in the manner indicated above:

SPECIAL RESOLUTION		**For**	**Against**
1	PROPOSED CAPITAL REDUCTION		

Please indicate with an "X" in the space above on how you wish to cast your vote. In the absence of specific directions, your proxy will vote or abstain as he/she thinks fit.

Dated this ....day of................................2017

Tel No. (during office hours)

Signature(s) of member (If member is a corporation, this form should be executed under common seal)

Notes:

1. *Only depositors whose names appear in the record of depositors as at 7 September 2017 shall be regarded as members and entitled to attend, speak and vote at the meeting or appoint a proxy or proxies to attend and/or vote in his stead.*
2. *A member entitled to attend and vote at the meeting is entitled to appoint up to two (2) proxies to attend, participate, speak and vote at the same meeting instead of him and that 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.*
3. *Where a member appoints two (2) proxies, the appointment shall be invalid unless the member specifies the proportion of his shareholdings to be represented by each proxy.*
4. *Where a member of the Company is an Exempt Authorised Nominee which holds ordinary shares in the Company for multiple beneficial owners in one (1) the securities account ("omnibus account"), there shall be no limit to the number of proxies which the Exempt Authorised Nominee may appoint in respect of each omnibus account it holds.*
5. *The instrument appointing a proxy in the case of an individual shall be under the hand of the appointor or of his attorney duly authorised in writing or if the appointor is a corporation, either under the corporation's common seal or under the hand of an officer or attorney duly authorised. Any alteration to the proxy form must be initialled.*
6. *The Proxy Form must be deposited at the registered office of the Company at Lot 7907, Batu 11, Jalan Balakong, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia (Attn.: The Company Secretaries), not less than twenty four (24) hours before the time appointed for the taking of the poll or any adjournment thereof.*
7. *The resolution as set out in this notice of EGM is to be voted by poll.*
8. *By submitting the duly executed Proxy Form, a member and his/her proxy consent to the Company (and/or its agents/service providers) collecting, using and disclosing the personal data therein in accordance with the Personal Data Protection Act 2010 for the purposes of this meeting and any adjournment thereof.*

Fold this flap for sealing

Then fold here

AFFIX
STAMP

The Company Secretaries
CN ASIA CORPORATION BHD

Lot 7907, Batu 11, Jalan Balakong
43300 Seri Kembangan
Selangor Darul Ehsan
Malaysia

1st fold here