SK TARGET GROUP LIMITED
瑞強集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8427)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MAY 2017

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the "**Directors**") of SK Target Group Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

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The board of Directors (the "**Board**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 May 2017 together with the comparative audited figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 May 2017

		2017	2016
	Note	***RM'000***	*RM'000*
Revenue	*4*	**33,595**	33,281
Cost of sales		**(23,172)**	(23,352)
Gross profit		**10,423**	9,929
Other income		**948**	154
Administrative expenses		**(3,342)**	(2,198)
Selling and distribution expenses		**(1,331)**	(1,256)
Listing expenses		**(6,048)**	–
Finance costs	*5*	**(57)**	(75)
Fair value change of financial assets at fair value through profit or loss		**13**	12
Profit before taxation		**606**	6,566
Taxation	*6*	**(1,715)**	(1,671)
(Loss)/Profit and total comprehensive (loss)/income for the year		**(1,109)**	4,895
(Loss)/Earnings per share			
— Basic *(RM cents)*	*7*	**(0.29)**	1.54

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 May 2017

	Note	2017 RM'000	2016 RM'000
Non-Current Assets			
Property, plant and equipment		**3,218**	2,261
Investment property		**401**	411
Total Non-Current Assets		**3,619**	2,672
Current Assets			
Inventories	*9*	**651**	1,049
Financial assets at fair value through profit or loss		**–**	835
Receivables, deposits and prepayment	*10*	**15,873**	11,599
Amount owing from a Director		**–**	177
Amount owing from ultimate holding company		**9**	–
Amount owing from a shareholder		**7**	–
Tax recoverable		**166**	–
Short-term bank deposits pledged with banks	*11*	**1,059**	1,349
Cash on hand and at bank		**7,248**	3,181
Total Current Assets		**25,013**	18,190
Current Liabilities			
Payables and accrued charges	*12*	**8,450**	6,110
Amount owing to a Director		**570**	–
Finance leases	*13*	**172**	93
Bank borrowings	*14*	**–**	599
Tax payable		**399**	286
Dividend payable		**–**	2,000
		9,591	9,088

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	Note	**2017**	2016
		RM'000	*RM'000*
Net Current Assets		**15,422**	9,102
Total Assets Less Current Liabilities		**19,041**	11,774
Non-Current Liabilities			
Finance leases	*13*	**411**	69
Bank borrowings	*14*	**–**	16
Deferred tax liabilities		**147**	106
		558	191
Net Assets		**18,483**	11,583
Capital and Reserves			
Share capital	*15*	**–**	–
Reserves		**18,483**	11,583
		18,483	11,583

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 May 2017

	Share capital *RM'000* *(Note 15)*	**Other reserve** *RM'000*	**Accumulated profits** *RM'000*	**Total** *RM'000*
At 31 May 2015	–	570	8,118	8,688
Profit and total comprehensive income for the year	–	–	4,895	4,895
Dividend declared *(Note 8)*	–	–	(2,000)	(2,000)
At 31 May 2016	–	570	11,013	11,583
Loss and total comprehensive loss for the year	–	–	(1,109)	(1,109)
Acquisition of the equity interest in subsidiary companies by an intermediate holding company of the Company pursuant to the reorganisation	–	(570)	–	(570)
Capital injection and issuance of shares	–	8,579	–	8,579
At 31 May 2017	–	8,579	9,904	18,483

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NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited since 19 July 2017. The Company was incorporated in the Cayman Islands as a private limited liability company on 28 October 2016. The addresses of the Company's registered office and principal place of business are P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands and 18, Jalan LP 2A/2, Taman Lestari Perdana, 43300 Seri Kembangan, Selangor Darul Ehsan, Malaysia, respectively.

Merchant World Investments Limited ("**Merchant World**"), a limited company incorporated in the British Virgin Islands ("**BVI**"), is the immediate and ultimate holding company of the Company. Mr. Loh Swee Keong, is the ultimate controlling party of the Company who wholly owned Merchant World.

The Company is an investment holding company and the principal activities of the Group are manufacturing and trading of precast concrete junction boxes, trading of accessories and pipes and provision of mobile crane rental and ancillary services in Malaysia. The principal activities and other particulars of the subsidiary companies are set out in Note 32 to the Company's 2017 annual report ("**2017 Annual Report**").

The consolidated financial statements are presented in Malaysian Ringgit ("**RM**"), which is also the functional currency of the Company. All values are rounded to nearest thousands (RM'000), unless otherwise stated.

2. BASIS OF PREPARATION AND PRESENTATION

In preparation for the proposed initial listing of the shares of the Company on the GEM of The Stock Exchange of Hong Kong Limited, the Group underwent a reorganisation (the "**Reorganisation**") as described below.

The Reorganisation involved the setting up of the Company, Gallant Empire Ltd ("**Gallant Empire**"), SK Target Holdings Sdn Bhd ("**SK Target Holdings**") and Loyal Earn Ltd ("**Loyal Earn**"), and interspersing the Company, Gallant Empire, SK Target Holdings and Loyal Earn between Target Precast Industries Sdn Bhd ("**Target Precast**"), Target Sales & Marketing Sdn Bhd ("**Target S&M**"), and Target Crane & Logistic Sdn Bhd ("**Target C&L**") and Mr. Loh Swee Keong, the director and sole beneficial owner of these group of entities. The Company, Gallant Empire, SK Target Holdings, Loyal Earn, Target Precast, Target S&M, and Target C&L were under common control by Mr. Loh Swee Keong throughout the year ended 31 May 2016 and 31 May 2017 or since their respective dates of incorporation, where there is a shorter period. The Company is the holding company after the Reorganisation and forming part of the Group. The Group comprising the Company and its subsidiary companies resulted from the Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements have been prepared using the principles of merger accounting. The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group have been prepared as if the group structure upon completion of the Reorganisation had been in existence throughout the year or since their date of incorporation, where there is a shorter period. The consolidated statements of financial position of the Group as at 31 May 2016 and 31 May 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the group structure upon completion of the Reorganisation had been in existence at those dates taking into account the respective date of incorporation, where applicable.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Revised IFRS in Issue but Not Yet Effective

For the purpose of preparing and presenting the consolidated financial statements for the year, the Group has consistently applied all new and revised International Financial Reporting Standards, International Accounting Standards, amendments and interpretations ("**new and revised IFRSs**") issued by the International Accounting Standards Board ("**IASB**") which are effective for annual accounting periods beginning on 1 June 2016 throughout the year.

The Group has not early applied the following new and revised IFRSs that have been issued by not yet effective:

Amendments to IAS 7	Disclosure Initiative[1]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014–2016 Cycle[4]
Amendments to IFRS 10 and IAS 28	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[6]
IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[2]
IFRS 16	Leases[3]
IFRS 17	Insurance Contracts[5]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[4]
IFRIC 23	Uncertainty over Income Tax Treatments[3]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[2]
Amendments to IAS 40	Transfers of Investment Property[2]

[1] Effective for annual periods beginning on or after 1 January 2017
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective for annual periods beginning on or after 1 January 2019
[4] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate
[5] Effective for annual periods beginning on or after 1 January 2021
[6] Effective for annual periods beginning on or after a date to be determined

The Directors of the Company anticipate that the application of the new and revised IFRSs will have no material impact on the results and the financial position of the Group.

4. REVENUE AND SEGMENTAL INFORMATION

Information reported to Mr. Loh Swee Keong, the Director of the Group, being the chief operating decision maker ("**CODM**"), for the purposes of resource allocation and assessment of segment performance is based on the following reportable and operating segments identified under IFRS 8 Operating Segments:

(a) Manufacturing and trading — manufacturing and trading of precast concrete junction boxes; and

(b) Other building materials and services — trading of accessories and pipes and provision of mobile crane rental and ancillary services.

No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Segment revenues and results

For the year ended 31 May 2017

	Manufacturing and trading *RM'000*	**Other building materials and services** *RM'000*	**Total** *RM'000*
Revenue			
External sales	**28,604**	**4,991**	**33,595**
Inter-segment sales	**–**	**1,240**	**1,240**
Segment revenue	**28,604**	**6,231**	**34,835**
Elimination			**(1,240)**
Group revenue			**33,595**
Segment result	**10,263**	**160**	**10,423**
Administrative expenses			**(3,342)**
Selling and distribution expenses			**(1,331)**
Listing expenses			**(6,048)**
Finance costs			**(57)**
Other income			**948**
Fair value change of financial assets at fair value through profit or loss			**13**
Profit before taxation			**606**

For the year ended 31 May 2016

	Manufacturing and trading *RM'000*	Other building materials and services *RM'000*	Total *RM'000*
Revenue			
External sales	29,089	4,192	33,281
Inter-segment sales	–	846	846
Segment revenue	29,089	5,038	34,127
Elimination			(846)
Group revenue			33,281
Segment result	9,589	340	9,929
Administrative expenses			(2,198)
Selling and distribution expenses			(1,256)
Finance costs			(75)
Other income			154
Fair value change of financial assets at fair value through profit or loss			12
Profit before taxation			6,566

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represents the profit from each segment without allocation of administrative expenses, listing expenses, selling and distribution expenses, finance costs, other income, fair value change of financial assets at fair value through profit or loss and taxation. This is the measure reported to CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates with discount given for certain bulk purchase.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

As at 31 May 2017

	Manufacturing and trading ***RM'000***	**Other building materials and services** ***RM'000***	**Segment assets (liabilities)** ***RM'000***	**Unallocated** ***RM'000***	**Consolidated assets (liabilities)** ***RM'000***
Non-current assets	**3,203**	**416**	**3,619**	**–**	**3,619**
Current assets	**14,013**	**6,849**	**20,862**	**4,151**	**25,013**
Non-current liabilities	**(411)**	**–**	**(411)**	**(147)**	**(558)**
Current liabilities	**(6,031)**	**(621)**	**(6,652)**	**(2,939)**	**(9,591)**

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As at 31 May 2016

	Manufacturing and trading *RM'000*	Other building materials and services *RM'000*	Segment assets (liabilities) *RM'000*	Unallocated *RM'000*	Consolidated assets (liabilities) *RM'000*
Non-current assets	2,242	430	2,672	–	2,672
Current assets	11,494	6,696	18,190	–	18,190
Non-current liabilities	(85)	–	(85)	(106)	(191)
Current liabilities	(7,515)	(1,287)	(8,802)	(286)	(9,088)

All assets and liabilities are allocated to operating segments other than certain cash on hand and at bank, deferred listing expenses, other payables, current and deferred tax liabilities.

Other segment information

For the year ended 31 May 2017

	Manufacturing and trading ***RM'000***	**Other building materials and services** ***RM'000***	**Total** ***RM'000***
Amounts included in the measure of segment profit or loss or segment assets:			
Additions to non-current assets	**1,483**	**–**	**1,483**
Factory rental	**440**	**–**	**440**

For the year ended 31 May 2016

	Manufacturing and trading *RM'000*	Other building materials and services *RM'000*	Total *RM'000*
Amounts included in the measure of segment profit or loss or segment assets:			
Additions to non-current assets	413	–	413
Factory rental	376	–	376

Geographical information

No geographical segment information is presented as the Group's revenue is all derived from Malaysia based on the location of trading and services delivered and the Group's non-current assets are located in Malaysia by physical location of assets.

Information about major customers

No customer contributes over 10% of total sales of the Group for each of the reporting years.

5. FINANCE COSTS

	2017	2016
	RM'000	*RM'000*
Interest on finance leases	**27**	14
Interest on trust receipt loan	**12**	24
Interest on bank overdraft	**10**	14
Interest on term loan	**8**	23
	57	75

6. TAXATION

	2017	2016
	RM'000	*RM'000*
Malaysia corporate income tax:		
Current year	**1,647**	1,671
Underprovision in prior years	**27**	–
Deferred tax:		
Current year	**57**	–
Overprovision in prior years	**(16)**	–
	1,715	1,671

Malaysia corporate income tax is calculated at the statutory tax rate on the estimated assessable profits for each of the assessable year.

The taxation for the year can be reconciled to the profit before taxation as follows:

	2017	2016
	RM'000	*RM'000*
Profit before taxation	**606**	6,566
Statutory tax rate	**24%**	24%
Taxation at applicable statutory tax rate	**145**	1,576
Tax saving of 5% *(Note)*	**(60)**	(53)
Tax effect of expenses not deductible for tax purpose	**1,585**	148
Tax effect of income not taxable for tax purpose	**(3)**	–
Deferred tax assets not recognised	**2**	–
Effect of different tax rate of entities operating in other jurisdictions	**35**	–
Underprovision of income tax payable in prior year	**27**	–
Overprovision of deferred tax in prior year	**(16)**	–
Taxation for the year	**1,715**	1,671

Note: Under the Income Tax Act 1967 of Malaysia, small and medium enterprises in Malaysia with paid-up capital amounting to RM2,500,000 or less are subject to income tax at the rate of 19% and 18% for the year ended 31 May 2016 and 31 May 2017 respectively, on chargeable income amounting to RM500,000 or less. For chargeable income in excess of RM500,000, the corporate income tax rate is 24% for the year ended 31 May 2016 and 31 May 2017 respectively.

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7. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the following data:

	2017	2016
	RM'000	*RM'000*
(Loss)/Earnings for the purpose of basic (loss)/earnings per share (loss)/profit for the year attributable to the owners of the Company	**(1,109)**	4,895
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share	**384,743,233**	317,020,000

The weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share has been determined on the assumption that the Reorganisation and the capitalisation issue as described in Note 35 to the 2017 Annual Report has been effective on 1 June 2015.

No diluted (loss)/earnings per share information has been presented for the year ended 31 May 2017 and 2016 as there were no potential ordinary shares outstanding during both years.

8. DIVIDEND

Interim dividend of RM2,000,000 was declared by the subsidiary companies during the financial year ended 31 May 2016.

Other than disclosed above, no dividend was paid or declared by the Company since its incorporation or by other group entities for both years.

9. INVENTORIES

	2017	2016
	RM'000	*RM'000*
At cost:		
Raw materials and consumables	**236**	600
Finished goods	**415**	449
	651	1,049

10. RECEIVABLES, DEPOSITS AND PREPAYMENT

	2017	2016
	RM'000	*RM'000*
Trade receivables	**13,301**	11,630
Less: Allowance for doubtful debts	**(176)**	(176)
	13,125	11,454
Other receivables	**25**	52
Deposits	**278**	88
Prepayments	**92**	5
Deferred listing expenses	**2,353**	–
	15,873	11,599

The amounts due from trade debtors are unsecured, do not carry any interest and the credit term granted by the Group ranges from 30 to 120 days.

The following is an aged analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice date.

	2017	2016
	RM'000	*RM'000*
1–30 days	**3,112**	1,988
31–60 days	**4,108**	2,741
61–90 days	**2,747**	2,666
91–120 days	**961**	1,365
More than 120 days	**2,197**	2,694
	13,125	11,454

As of 31 May 2016 and 31 May 2017, trade receivables of RM6,584,000 and RM3,409,000 respectively, were past due but not impaired. These relate to a number of diversified customers for whom there was no recent history of default and have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no allowance for impairment is necessary in respect of these balances as these balances were either subsequently settled or there has not been a significant change in credit quality and the balances are still considered recoverable.

The following is an ageing of trade receivables which are past due but not impaired based on invoice date.

	2017	2016
	RM'000	*RM'000*
31–60 days	**1,204**	–
61–90 days	**685**	2,556
91–120 days	**272**	1,334
More than 120 days	**1,248**	2,694
	3,409	6,584

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The movement in allowance for doubtful debts:

	2017	2016
	RM'000	*RM'000*
At beginning of year	**176**	–
Impairment losses recognised	**–**	176
At end of year	**176**	176

Included in the allowance for doubtful debts is one individually impaired trade receivable with balance of approximately RM176,000 as at 31 May 2016 and 31 May 2017 which has been placed in severe financial difficulties. The Group does not hold any collateral over this balance.

11. SHORT TERM BANK DEPOSITS PLEDGED WITH BANKS

Short term bank deposits with an original maturity of three months or less carry interest at prevailing market rate of 3.30% and 3.15% per annum as at 31 May 2016 and 31 May 2017 respectively. The short term bank deposits are pledged to secure general banking facilities granted to the Group as disclosed in Note 14.

12. PAYABLES AND ACCRUED CHARGES

	2017	2016
	RM'000	*RM'000*
Trade payables	**5,178**	4,810
Other payables	**600**	923
Accrued listing fees	**2,053**	–
Accrued charges	**496**	163
Tenant's deposit	**4**	4
Advance from customers	**119**	210
	8,450	6,110

The following is an aged analysis of trade payables presented based on the invoice dates.

	2017	2016
	RM'000	*RM'000*
1–30 days	**2,270**	1,451
31–60 days	**1,225**	1,811
61–90 days	**1,341**	1,278
91–120 days	**207**	244
Over 120 days	**135**	26
	5,178	4,810

The average credit period on purchases of goods is 30 to 75 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

Tenant deposits represent the refundable deposits to tenants upon termination or cancellation of operating lease arrangements. The tenant deposits are refundable to tenants within 60 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the end of the reporting periods based on the lease terms amounted to RM4,000 and RM4,000 as at 31 May 2016 and 31 May 2017 respectively.

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13. FINANCE LEASES

	2017	2016
	RM'000	*RM'000*
Analysed for reporting purposes as:		
Current liabilities	**172**	93
Non-current liabilities	**411**	69
	583	162

It is the Group's policy to lease certain of its motor vehicles, plant and machinery and office equipment. The Directors determined the leases to be finance leases as the ownership of the relevant assets will be transferred to the Group upon the payment of the last instalment of the individual agreement. The average lease term is 4 and 5 years as at 31 May 2016 and 31 May 2017 respectively. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 6.25% to 7.10% and 4.70% to 7.10% per annum for the year ended 31 May 2016 and 31 May 2017 respectively.

	2017	2016
	RM'000	*RM'000*
Total outstanding:		
Not later than one year	**201**	104
Later than one year and not later than five years	**440**	76
	641	180
Less: Finance charges	**(58)**	(18)
Principal outstanding	**583**	162
Less: Amount due for settlement within 12 months (Shown under current liabilities)	**(172)**	(93)
Amount due for settlement after 12 months	**411**	69

Finance leases are denominated in RM. Certain finance leases are guaranteed by Mr. Loh Swee Keong, a Director and Ms. Loh Lily, the sibling of Mr. Loh Swee Keong. The Directors represented that the guarantee will be released in the foreseeable future.

14. BANK BORROWINGS

	2017	2016
	RM'000	*RM'000*
Current — secured		
Term loan	**–**	115
Trust receipt loan	**–**	285
Bank overdraft	**–**	199
Carrying amount of bank borrowings repayable within one year	**–**	599
Non-current — secured term loan repayable Within a period of more than one year but not more than two years	**–**	16
	–	615

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The term loan bore interest at Base Lending Rate ("**BLR**") plus 1.5% per annum as at 31 May 2016.

The trust receipt loan bore interest at Islamic Base Rate ("**IBR**") plus 1.5% per annum as at 31 May 2016.

The bank overdraft bore interest at IBR plus 1.5% per annum as at 31 May 2016.

The bank borrowings facilities are secured by:

(i) leasehold land and building with a carrying amount of RM262,000 and RM255,000 as at 31 May 2016 and 31 May 2017 respectively;

(ii) fixed deposit of RM1,349,000 and RM1,059,000 as at 31 May 2016 and 31 May 2017 respectively; and

(iii) personal guarantee by Mr. Loh Swee Keong, a Director of the Company. The Directors of the Company represented that the guarantee will be released in the foreseeable future.

15. SHARE CAPITAL

The share capital as at 31 May 2017 represented the issued share capital of the Company. Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 11 November 2016. The share capital as at 31 May 2017 represents the share capital of the Company with details as follows:

	Number of shares	**Share capital** *HK$*
Ordinary shares of HK$0.01 each		
Authorised:		
At date of incorporation/31 May 2017 *(note a)*	38,000,000	380,000
Issued and fully paid:		
At date of incorporation *(note a)*	1	–
Issue of shares on Reorganisation *(note b)*	9,999	100
At 31 May 2017	10,000	100

Notes:

(a) On 28 October 2016, the Company was incorporated and registered as an exempted company in the Cayman Islands with an authorised share capital of HK$380,000 comprising 38,000,000 ordinary shares of HK$0.01 each and paid up share capital of HK$0.01 comprising 1 ordinary share of HK$0.01 each.

(b) On 11 November 2016, Merchant World and Greater Elite transferred 1,000 and 388 ordinary shares of Gallant Empire to the Company respectively, and in consideration thereof, the Company allotted and issued as fully paid an additional 7,204 ordinary shares to Merchant World and 2,795 ordinary shares to Greater Elite. After the said transfers, Gallant Empire became a wholly-owned subsidiary company of the Company.

All ordinary shares issued during the year rank pari passu with the then existing ordinary shares in all respects.

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group manufactures and sells precast concrete telecommunication junction boxes and precast concrete electrical junction boxes under our brand of "Target" in Malaysia. The Group's precast concrete junction boxes are used in (i) telecommunication and electrical infrastructures upgrade and expansion works; and (ii) construction projects in Malaysia. They are buried underground to deter tampering and are used to house and protect a junction with telecommunication and electrical utility connection and distribution access points from weather, changing elevation underground and provide easy access for maintenance.

The Group has been a registered supplier or approved supplier of various notable telecommunication companies such as Celcom Axiata Berhad and Telekom Malaysia ("**Telekom**") since 2008 and registered supplier of Tenaga National Bhd. ("**TNB**"), the only electric utility company, in Malaysia since 2012. Hence, the Group's precast concrete junction boxes can be used in infrastructure or construction projects involving the telecommunication companies and TNB.

For the year ended 31 May 2017, the revenue of the Group increased slightly by approximately 0.9% the due to an increase in the revenue generated from trading of accessories and pipes and the provision of mobile crane rental and ancillary services. On the other hand, the demand for the Group's precast concrete junction boxes has dropped slightly compared to the previous year. This was mainly due to the fact that many of the projects of our customers were at their completion stage and as such the orders for junction boxes were reducing.

Looking forward, the Directors consider that the future opportunities and challenges facing the Group will largely depend on the construction works for utilities infrastructure and new development area construction. The Directors are of the view that the continued government interest and investment to expand power distribution, telecommunication, civil infrastructures coupled with the development of new commercial, industrial, and residential areas remains the key drivers and opportunities for the precast concrete telecommunication junction box and electrical junction box manufacturing industry in Malaysia. Further the Directors expect that the growth of the Group will be sustained by the Formal Agreement because it is the first agreement entered directly between the Group and Telekom without the involvement of contractors or subcontractors, therefore it allows the Group to capture a higher profit margin in the sales of its precast concrete junction boxes. With the Group's experienced management team and the ability to deliver a wide range of high quality precast concrete junction boxes, the Directors consider that the Group is well-positioned to compete against its competitors, and the Group will continue to pursue the following key business strategies: (i) expand the Group's production capacity at the existing production plant located at Lot 1894-A JLN KPB 5, Kawasan Perindustrian Balakong, 43300 Seri Kembangan, Selangor (the "**Existing Selangor Plant**") and complete the establishment of the newly established plant in Plot A of land held GM 865, Lot 2945 in the Mukim Senai District, Kulaijaya, State of Johor (the "**New Kulaijaya Plant**"); (ii) acquire the parcel of land in Southern Malaysia on which the New Kulaijaya Plant is situated or a parcel of land in its peripheral area; (iii) continue to expand the Group's sales and marketing team; and (iv) expand the Group's business vertically in the supply chain of the precast concrete junction box industry through mergers and acquisitions by utilizing the net proceeds from the Listing of the Shares on the GEM of the Stock Exchange on 19 July 2017.

FINANCIAL REVIEW

Revenue

The revenue increased from approximately RM33.3 million for the year ended 31 May 2016 to approximately RM33.6 million for the year ended 31 May 2017, representing a growth of approximately 0.9%. Such increase was mainly due to the increase in the revenue generated from the trading of accessories and pipes and provision of mobile crane rental and ancillary services.

The Group's revenue generated from the trading of accessories and pipes and the provision of mobile crane rental and ancillary services increased by approximately 19%, from approximately RM4.2 million for the year ended 31 May 2016 to approximately RM5.0 million for the year ended 31 May 2017. The increase was mainly caused by the increase in sales of scrap metals.

Cost of sales and Gross Profit

Costs of sales mainly consists of (i) cost of raw materials and trading products; (ii) manufacturing overheads; (iii) direct labour; and (iv) crane hiring costs. The total cost of sales decreased slightly from approximately RM23.4 million for the year ended 31 May 2016 to approximately RM23.2 million for the year ended 31 May 2017, representing a decrease of approximately 0.8%. Such change was mainly attributable to (i) the decrease in sale of precast concrete junction boxes for year ended 31 May 2017; and (ii) the decrease in the average unit price of ready-mix concrete by approximately RM28.2 per m^3, or 13.6%, resulting from a relatively lower price of ready-mix concrete offered by the Group's suppliers during the year ended 31 May 2017.

The cost of sales from the manufacturing and sale of precast concrete junction boxes decreased from approximately RM19.5 million for the year ended 31 May 2016 to approximately RM18.3 million for the year ended 31 May 2017.

The Gross Profit increased from approximately RM9.9 million for the year ended 31 May 2016 to approximately RM10.4 million for the year ended 31 May 2017.

Administrative expenses

Administrative expenses of the Group increased by approximately RM1.1 million or 50% from approximately RM2.2 million for the year ended 31 May 2016 to approximately RM3.3 million for the year ended 31 May 2017.

The Group's administrative expenses mainly consisted of salaries, welfare and other benefits, rent and rates, general office expenses, depreciation and professional service fees. The increase was mainly attributable to the increase in staff costs paid to Directors and staff due to business expansion and audit fee and other professional costs in relation to the compliance with the GEM Listing Rules during the year.

Selling and distribution expenses

Selling and distribution expenses of the Group increased by approximately RM0.07 million or 5.6% from approximately RM1.26 million for the year ended 31 May 2016 to approximately RM1.33 million for the year ended 31 May 2017.

The Group's selling and distribution expenses mainly consisted of salaries, welfare and other benefits for sales and marketing staff and travelling and entertainment expenses. The slight increase of selling and distribution expenses was mainly due to the increase in salaries, welfare and other benefits.

Loss for the year

The Group recorded a net loss of approximately RM1.1 million for the year ended 31 May 2017 due to the net effect of (i) a non-recurring Listing expenses of approximately RM6 million for its Listing exercise during the year ended 31 May 2017; (ii) the increase in the administrative expenses incurred by the Group for the year ended 31 May 2017; (iii) the slight decrease in the cost of sales of the Group for the year ended 31 May 2017 and (iii) the slight increase in revenue of the Group for the year ended 31 May 2017.

PRINCIPAL RISK AND UNCERTAINTIES

Operational risk

The Group's operation is subject to general economic and market risks which may affect the competition and profitability of construction projects. The Group's key risk exposures are summarised as follows:

(a) Fluctuation in the prices of our major raw materials may have adverse impacts on the Group's financial results;

(b) The Group's revenue is mainly derived from the manufacturing and sale of precast concrete junction boxes for infrastructure upgrades and expansion work for construction projects, which are non-recurrent in nature and there is no guarantee that the customers will place new business purchase orders; and

(c) The Group's cash flow position may deteriorate owing to a mismatch between the time of receipt of payments from its customers and payments to its suppliers if the Group is unable to manage its cash flow mismatch properly.

For other risks and uncertainties facing the Group, please refer to the section headed "Risks Factors" in the prospectus of the Group dated 6 July 2017 (the "**Prospectus**").

Financial risks

As a manufacturer of precast concrete junction boxes, the Group has to purchase raw materials from its suppliers from time to time based on its procurement policy. The Group relies on cash inflow from its customers to meet its payment obligations to our suppliers. The Group's cash

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inflow is dependent on the prompt settlement of its payments. As at 31 May 2017, the Group recorded trade receivables amounting to approximately RM13.1 million, the number of trade receivables turnover days was approximately 143 days which exceeded the credit period stipulated on the Group's service agreements with its customers with average trade payable turnover days of approximately 79 days. The Group is exposed to credit risk and liquidity risk. For further details, please refer to note 28 to the 2017 Annual Report.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 May 2017, the Group's cash and cash equivalents was approximately RM8.3 million (31 May 2016: approximately RM4.5 million).

As at 31 May 2017, the Group's total borrowings were approximately RM0.6 million (31 May 2016: approximately RM0.8 million).

As at 31 May 2017, the Group current ratio was 2.6 (31 May 2016: 2.0), which is calculated based on the total current assets divided by the total current liabilities. The gearing ratio was approximately 3.2% as at 31 May 2017 (31 May 2016: 6.7%), which is calculated based on the total interest-bearing loans divided by the total equity.

As at 31 May 2017, the Group had no bank borrowings (2016: approximately RM0.6 million). The gearing ratio, calculated based on the total borrowings divided by total equity at the end of the year and multiplied by 100%, decreased from approximately 6.7% as at 31 May 2016 to approximately 3.2% as at 31 May 2017 due to repayment of all bank borrowings in full. The Group's financial position is sound and strong. With available bank balances and cash and bank credit facilities, the Group has sufficient liquidity to satisfy its funding requirements.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on the GEM Board of the Stock Exchange on 19 July 2017. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises of ordinary shares.

As at 31 May 2017, the share capital and equity attributable to owners of the Company amounted to approximately RM57 and approximately RM18.5 million respectively (31 May 2016: Nil and RM11.6 million respectively). Details of the capital risk management are set out in the note 27 to the 2017 Annual Report.

CAPITAL COMMITMENTS

As at 31 May 2017, the Group had capital commitments in respect of the acquisition of property, plant and equipment totalling RM117,000 (31 May 2016: Nil).

EXPOSURE TO EXCHANGE RATE FLUCTUATION

Since a substantial amount of income and profit of our Group is denominated in Malaysian Ringgit ("**RM**"), any fluctuations in the value of RM may adversely affect the amount of dividends, if any, payable to the Shares in HK$ to our Shareholders. Furthermore, fluctuations

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in the RM's value against other currencies will create foreign currency translation gains or losses and may have an adverse effect on our Group's business, financial condition and results of operations. Any imposition, variation or removal of foreign exchange controls may adversely affect the value, translated or converted into HK$, of our Group's net assets, earnings or any declared dividends. Consequently, this may adversely affect our Group's ability to pay dividends or satisfy other foreign exchange requirements.

CHARGE OVER ASSETS OF THE GROUP

As at 31 May 2017, the Group had bank deposits pledged with banks totalling approximately RM1.1 million (31 May 2016: approximately RM1.4 million). These deposits were pledged to secure general banking facilities granted to the Group.

MATERIAL INVESTMENTS, ACQUISITIONS AND DISPOSALS, AND PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save for the reorganisation in relation to the listing of the shares of the Company, there were no significant investment held, nor other material acquisitions and disposals of subsidiaries and affiliated companies during the year ended 31 May 2017. There is no future plan for material investments or capital assets as at 31 May 2017.

CONTINGENT LIABILITIES

As at 31 May 2017, the Group had no material contingent liabilities (31 May 2016: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 May 2017, we had 65 employees who are located in Malaysia and the Hong Kong Special Administrative Region. The Group generally recruits employees from the open market by placing recruitment advertisements. The Group entered into individual labour contracts with each of the employees in accordance with the applicable labour laws of Malaysia and the Hong Kong Special Administrative Region, which cover matters such as wages, employee benefits and grounds for termination. The remuneration package that the Group offers to the employees includes salary, bonuses, allowances and medical benefits. In general, the Group determines an employee's salary based on each employee's qualifications, experience and capability and the prevailing market remuneration rate. The Group has designed a review system to assess the performance of our employees once a year, which forms the basis of our decisions with respect to salary adjustments, bonuses and promotions.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Given that the Share Offer was completed after 31 May 2017, the implementation plan as set out in the section headed "Future plans and use of proceeds" of the Prospectus will commence during the year ending 31 May 2018.

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USE OF PROCEEDS FROM THE SHARE OFFER

The shares of the Company were listed on 19 July 2017 on the GEM by Share Offer. The Offer Price was HK$0.28 per Offer Share. The net proceeds received by the Company from the Share Offer, after deducting underwriting fees and other expenses, were approximately HK$29.6 million.

The net proceeds from the Listing have not been utilised up to the date of report in accordance with the proposed applications set out in the section "Net Proceeds from The Share Offer" of the announcement "Offer Price and Allotment Results". The table below lists out the proposed applications of the net proceeds and usuage up to the date of report.

	Net proceeds from the share offer *HK$ million*	**Amount utilised up to 31 May 2017** *HK$ million*	**Unutilised balance up to 31 May 2017** *HK$ million*
Expansion of production capacity through			
(i) expanding our Existing Selangor Plant	7.0	–	7.0
(ii) completing the establishment of our New Kulaijaya Plant and	7.3	–	7.3
(iii) recruiting new staff	2.6	–	2.6
Acquisition of a parcel of land in Southern Malaysia	8.4	–	8.4
Expansion of our business vertically in the supply chain of the precast concrete junction box industry through mergers and acquisitions	2.7	–	2.7
Expansion of our sales and marketing team	0.8	–	0.8
General working capital	0.8	–	0.8
Total	29.6	–	29.6

The Directors will constantly evaluate the Group's business objectives and will change or modify plans against the changing market conditions to ascertain the business growth of the Group.

As at the date of this announcement, the Directors do not anticipate any change to the plan as to the use of proceeds.

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OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 May 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding securities transactions by the Directors (the "**Model Code**") on terms no less exacting than the required standard of dealings concerning securities transactions by the Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Directors are reminded of their obligations under the Model Code on a regular basis. Following specific enquiries by the Group, all Directors have confirmed that they have complied with the required standard set out in the Model Code from the Listing Date and up to 31 March 2017.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENT AND CONTRACTS

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year and at any time during the year ended 31 May 2017.

DIRECTORS' INTEREST COMPETING BUSINESS

As at 31 May 2017, none of the Directors, nor the substantial shareholders of the Company and any their respective close associates has any interest in a business which competes or likely to compete, either directly or indirectly, with the business of the Group.

DEED OF NON-COMPETITION

The controlling shareholders, namely Mr. Loh Swee Keong and the company through which he holds equity interests in the Company, namely Merchant World Investments Limited, have entered into a Deed of Non-competition with the Company on 27 June 2017. The details of the Deed of Non-competition have been disclosed in the Prospectus.

The controlling shareholders have confirmed with the Company that they had complied with the non-competition undertakings during the year ended 31 May 2017. The Directors (including the Independent Non-executive Directors) have reviewed and confirmed the compliance with the non-competition undertaking by the controlling shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, of the date of this announcement, there is sufficient public float or not less than 25% of the Shares are in the hands of the public as required under the GEM Listing Rules.

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CORPORATE GOVERNANCE FUNCTIONS

The Group has not established a corporate governance committee and thus the Board is responsible for performing the corporate governance duties set out in CG Code D.3.1 such as reviewing and determining the policies and practices on corporate governance of the Group, developing the Group's policies, practices on corporate governance, training and continuous professional development of the Directors and senior management, the Group's policies and practices on compliance with legal and regulatory requirements.

The Board held meetings from time to time whenever necessary. To enable all the Directors to participate in the meetings, the Company ensures that all Directors are properly briefed on issues arising at the Board meetings and receive adequate, complete and reliable information in a timely manner. Notice of regular Board meetings is given to all Directors and they can include matters for discussion in the agenda as they think fit. Draft minutes of Board meeting shall be circulated to all Directors for comments prior to confirmation of the minutes. The signed minutes are kept by the Company Secretary. Every Board member has full access to the advice and services of the Company Secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed. They are also entitled to have full access to Board documents and related materials so that they are able to make an informed decision.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CG Code provision A.2.1 stipulates that the roles of chairman of the Board and chief executive should be separate and should not be performed by the same individual. Mr. Loh is the chairman of the Board and the chief executive officer of the Company. In view of Mr. Loh has been operating and managing the operating subsidiaries of the Group since 1993, the Board believes that it is in the best interest of the Group to have Mr. Loh taking up both roles for effective management and business development. Therefore, the Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstance.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year ended 31 May 2017, the Group has compiled with the relevant laws and regulations that have a significant impact on the operations of the Group.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company recognized its responsibility to protect the environment from its business activities. The Company is committed to the sustainable development of the environment and our society. The Group has endeavoured to comply with laws and regulations regarding environmental protection and adopted effective environmental practices to ensure our business meet the required standards and ethics in respect of environmental protection.

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RELATIONSHIPS WITH STAKEHOLDERS

The Group recognises that our employees, customers and suppliers are key stakeholders to the Group's success. The Group strive to achieve corporate sustainability through engaging employees, providing quality products and services to our customers, collaborating with suppliers to deliver quality sustainable products and services and supporting our community.

SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 May 2017:

(a) The Company has conditionally adopted a share option scheme on 27 June 2017, summary of terms and conditions of which are set out in the section headed "Share Option Scheme" in Appendix IV "Statutory and General Information" to the Prospectus. No share option has been granted since the adoption of the Share Option Scheme.

(b) On 27 June 2017, the authorized share capital of the Company was increased to HK$4,399,900 by the creation of an additional of 439,990,000 issued at a price of HK$0.01 each.

(c) On 19 July 2017, the Company was successfully listed on the GEM Board of the Stock Exchange.

(d) On 24 February 2017, the Company entered into a legally-binding collaboration agreement with Buhmi Precast Sdn Bhd in order to secure punctual supply of ready-mix concrete. Up to reporting date, no transaction was resulted from the collaboration agreement yet. Details of the collaboration agreement are set out in the paragraph headed "Collaboration with a Ready-mix Concrete Supplier" in the Business section of the Prospectus.

(e) on 1 August 2017, Telekom signed and returned the Formal Agreement between the Company's Wholly-Owned Subsidiary, namely Target Precast and Telekom in Respect of the Supply and Delivery of Concrete Junction Boxes and Junction Box Cover for a term of three Years from 1 January 2017 to 31 December 2019.

RESULTS AND DIVIDENDS

The result of the Group for the year ended 31 May 2017 and the state of the affairs of the Group as at that date are set out in the Consolidated Statement of Profit and Loss and Other Comprehensive Income on page 2.

During the year ended 31 May 2017, no interim dividend (2016: RM2,000,000) was declared and paid.

The Board does not recommend the payment of final dividend for the year ended 31 May 2017 (2016: Nil).

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividend.

INTEREST OF THE COMPLIANCE ADVISER

As notified by RHB Capital Hong Kong Limited ("**RHB Capital**"), compliance adviser of the Company, except for (i) RHB Capital's participation as the sole sponsor in relation to the Listing; and (ii) the compliance adviser agreement entered into between the Company and RHB Capital dated 27 June 2017, neither RHB Capital nor any of its close associates (as defined in the GEM Listing Rules) and none of the directors or employees of RHB Capital had any interest in the share capital of our Company or any member of our Group (including options or rights to subscribe for such securities, if any) which is required to be notified to our Company pursuant to Rule 6A.32 of the GEM Listing Rules as of 31 May 2017.

AUDIT COMMITTEE

The Group established the Audit Committee on 27 June 2017 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules.

The Audit Committee currently consists of three members namely, Mr. Yau Ka Hei, Mr. Chu Kin Ming and Mr. Lee, Alexander Patrick. The chairman of the Audit Committee is Mr. Chu Kin Ming.

During the period from the Listing Date to the date of this announcement, one meeting has been being held for the Audit Committee. The audited consolidated financial statements of the Group for the year ended 31 May 2017 has been reviewed by the Audit Committee.

By order of the Board
SK Target Group Limited
Loh Swee Keong
Chairman and Executive Director

Hong Kong, 28 August 2017

As at the date of this announcement, the Board comprises two Executive Directors, namely, Mr. Loh Swee Keong and Mr. Tan Cheng Siong and three Independent Non-executive Directors, namely, Mr. Yau Ka Hei, Mr. Chu Kin Ming and Mr. Lee, Alexander Patrick.

*The announcement will remain on the "Latest Company Announcements" page of the GEM website at **www.hkgem.hk** for at least 7 days from the date of its posting and be posted on the website of the Company at **www.targetprecast.com**.*

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