Detailed Computations, Explanations and Supporting Information for Article Titled "Datapulse Technology: Yet More Questions on the Wayco Acquisition"

Refer to Annex A below provided by Datapulse Technology (DT) in its 28 December 2017 response to SGX's queries. It shows the list of Wayco's fixed assets and their book values **as at 30 June 2017**.

ANNEX A
BREAKDOWN OF FIXED ASSETS OF THE TARGET COMPANY AS AT 30 JUNE 2017

FIXED ASSETS	**BOOK VALUE** (MYR$)
Air-Conditioner (ADM)	7,796.25
Electrical Installation	15,135.62
Factory Equipment (FAC)	16,274.78
Furniture & Fittings	750.00
Laboratory Equipment	0.00
Motor Vehicle (ADM)	21,675.00
Office Equipment (ADM)	15,933.04
Computer System	2,304.80
Plant & Machinery (FAC)	396,329.72
Renovation	9,741.31
Signboard (ADM)	0.00
Warehouse (Lot 1511) Equipment	478.12
Freehold Land(FAC) - Dewani	2,431,201.96
Freehold Land(Warehouse) - Lot 1511	2,132,688.49
Freehold Land-Kl Shop Office	930,850.00
Factory Building(FAC) - Dewani	768,808.04
Building – Warehouse (Lot 1511)	1,067,311.51
Building - Kl Shop Office	169,150.00
	7,986,428.64

Wayco's properties

The main fixed assets of Wayco are two properties in Johor Bahru comprising two pieces of freehold land that house a factory and a warehouse, and a third property in Kuala Lumpur comprising freehold land and a shop office that is held as an investment property. In Annex A, they are the following fixed assets: Freehold Land (FAC) – Dewani, Freehold Land (Warehouse) – Lot 1511, Freehold Land –Kl Shop Office, Factory Building (FAC) – Dewani, Building – Warehouse (Lot 1511) and Building – Kl Shop Office.

DT also provided further details about the three properties (Property 1, Property 2 and Property 3), their address, date of valuation and valuation, and these are reproduced below. Property 2, which is described as a warehouse in Annex A, is described as having a "double-detached factory" so it would appear that this was a factory that is now being used as a warehouse.

Property 1		
Lot No./Title No.: 12893/GRN60048, in the Mukim of Tebrau, District of Johor Bahru, Johor Darul Takzim	**Address: No. 11, Jalan Dewani 3, Kawasan Perindustrian Dewani, 81100 Johor Bahru, Johor Darul Takzim**	
Full Description	**Date of Valuation**	**Valuation Amount (MYR$)**
Property 1 consists of a parcel of freehold industrial land, generally rectangular in shape with land area of 22,776.4 square feet. It has a frontage width of about 58.2 metres onto JalanDewani 3 and an average depth of 45.4 metres onto a water reserve line. Property 1 also has a double-storey detached factory. The factory has, amongst other things, packaging areas, offices and storage areas. It also has access to water, electricity supplies and telephone facilities. The factory was occupied at the time of the valuation.	4 December 2017	3,200,000.00

Property 2		
Lot No./Title No.: 1511/GRN 92310 in the Mukim of Tebrau, District of Johor Bahru, Johor Darul Takzim	**Address: No. 12, Jalan Dewani 3, Kawasan Perindustrian Dewani, 81100 Johor Bahru, Johor Darul Takzim**	
Full Description	**Date of Valuation**	**Valuation Amount (MYR$)**
Property 2 consists of a parcel of freehold industrial land, generally trapezoidal in shape with land area of 1,985.5 square metres. It has a frontage width of about 48.5 metres onto JalanDewani 3 and an average depth of 59.4 metres. Property 2 also has a double-storey detached factory with a mezzanine floor. The factory has production areas, offices, changing rooms and toilets. It also has access to water, electricity supplies and telephone facilities. The factory was occupied at the time of the valuation.	4 December 2017	3,100,000.00

Property 3		
Lot No./Title No.: 66628/GRN233725, Mukim and District of Petaling, Selangor Darul Ehsan	**Address: No. 10, JalanPuteri 7/11, Bandar Puteri, 47100 Puchong, Selangor Darul Ehsan**	
Full Description	**Date of Valuation**	**Valuation Amount (MYR$)**
Property 3 is freehold property. The site of Property 3 is rectangular in shape, and has a titular land area of 1,302 square feet. It has a frontage of about 6.095 metres onto Jalan Puteri 7/11 and a depth of about 19.812 metres. Property 3 is a 1.5 storey intermediate terraced shop-office. The shop-office has access to water, electrical supply and telecommunication facilities. The shop-office also has tenants at the date of valuation.	24 November 2017	1,000,000.00

A DT shareholder shared with me photos he had taken from outside Property 1 and Property 2 on Saturday, 19 May 2018. I also personally viewed the properties from the outside on a weekday recently.

The following are two photos of Property 1, located at No. 11, Jalan Dewani 3, Kawasan Perindustrian Dewani, 81100 Johor Bahru, Johor Darul Takzim.

Below are two photos of Property 2 located at No. 12, Jalan Dewani 3, Kawasan Perindustrian Dewani, 81100 Johor Bahru, Johor Darul Takzim. This is located directly opposite Property 1. Notice that the building carries the name "RW".

The photo of the letter box outside the gate of the "RW" building shows the name of the companies as "Riverwalk Plastic Sdn Bhd" and "Easy Wood (Johor) Sdn Bhd". It also shows the address of the property, which matches the address provided by DT.

"RW" therefore appears to refer to "Riverwalk Plastic Sdn Bhd". Riverwalk Plastic is a Malaysia private company that has no apparent connection with Wayco or the vendor. The last audited accounts filed for the year ended 31 December 2015 showed that it has accumulated losses (negative retained earnings) of RM52,336 although it reported after-tax profit of RM181,290 that year. Its website can be found here: rw-plastic.com.my

Information from the LinkedIn profile of Riverwalk Plastic's founder said that it was incorporated in 2013 and was shut down a year later. However, it remains active through its subsidiary Easy Wood (Johor) Sdn Bhd.

Book values of Wayco's properties

Let's look at the book values of the three properties.

The total book value of the three properties (freehold land and buildings) shown in Annex A above is RM7,500,010 as of 30 June 2017 (2,431,201.96 + 2,132,688.49 + 930,850.00 + 768,808.04 + 1,067,311.51 + 169,150.00). However, according to the extracts from the audited accounts for the year ended 31 December 2016 shown below, the total book value of the freehold land and buildings of Wayco as of 31 December 2016 was RM3,987,849 (RM1,618,485+RM1,863,224+RM335,000+RM171,140).

4. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RM	Buildings RM	Plant, machinery, equipment and motor vehicles RM	Office equipment, furniture and fittings RM	Electrical installation and renovation RM	Total RM
Cost						
At 01.01.2016	1,618,485	2,710,453	2,196,225	350,059	124,214	6,999,436
Additions	-	-	19,490	8,880	22,892	51,262
Written off	-	-	-	(4,620)	-	(4,620)
At 31.12.2016	1,618,485	2,710,453	2,215,715	354,319	147,106	7,046,078

4. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Freehold land RM	Buildings RM	machinery, equipment and motor vehicles RM	Office equipment, furniture and fittings RM	Electrical installation and renovation RM	Total RM
Accumulated depreciation and impairment losses						
At 01.01.2016	-	793,020	1,978,837	313,243	115,955	3,201,055
Charge for the year	-	54,209	38,585	12,884	5,636	111,314
Written off	-	-	-	(4,620)	-	(4,620)
At 31.12.2016	-	847,229	2,017,422	321,507	121,591	3,307,749
Carrying amounts						
At 01.01.2016	1,618,485	1,917,433	217,388	36,816	8,259	3,798,381
At 31.12.2016	1,618,485	1,863,224	198,293	32,812	25,515	3,738,329

Freehold land and building with a total carrying amount of RM1,810,730 (2015 : RM1,837,804) are charged to a bank to secure banking facilities.

5. INVESTMENT PROPERTIES - AT COST

	Freehold land RM	Building RM	Total RM
Cost			
At 01.01.2016/31.12.2016	335,000	199,000	534,000
Accumulated Depreciation and Impairment losses			
At 01.01.2016	-	23,880	23,880
Charge for the year	-	3,980	3,980
At 31.12.2016	-	27,860	27,860
Carrying amounts			
At 01.01.2016	335,000	175,120	510,120
At 31.12.2016	335,000	171,140	506,140

Freehold land is not depreciated. Depreciation of other property, plant and equipment is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives at the following annual rates:

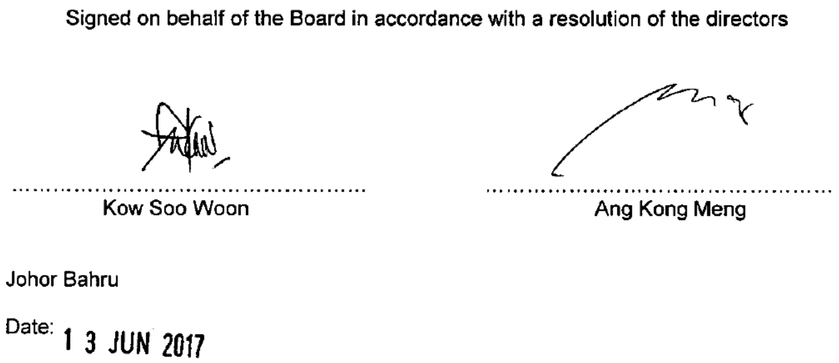
Buildings	2%
Plant, machinery and equipment	12.5%
Renovation and electrical installation	12.5%
Furniture, fittings and office equipment	12.5% to 33%
Motor vehicles	20%

Let's first look at the freehold land and buildings under "Property, plant and equipment" in Note 4 above. It shows that the book value of the buildings as of 31 December 2016 was RM1,863,224. The buildings are depreciated at 2% per year on a straight-line basis based on the depreciation policy which is shown under Note 5 above. Therefore, 1% of the cost of RM2,710,453 or RM27,104.53 will be charged as depreciation for the 6 months to 30 June 2017 (the date of the book values of the fixed assets shown in Annex A), which brings the book value of the buildings down to RM1,836,119.47 as of 30 June 2017. If we add the book values of "Factory Building(FAC) – Dewani" and "Building – Warehouse (Lot 1511)" in Annex A, that comes to RM1,836,119.55 – basically the same amount. So far so good, but….

Based on Annex A, these two buildings sit on the freehold land in Property 1 and Property 2. The total book value of these two pieces of freehold land as of 31 December 2016 in the audited accounts was RM1,618,485. However, if we add the book values of the same two pieces of freehold land in Annex A as of 30 June 2017, the amount is RM4,563,890.45 (RM2,431,201.96+RM2,132,688.49). [Note that freehold land is not depreciated.]

In total, the book value of the freehold land and buildings for these two properties was RM3,454,604 (RM1,618,485+RM1,836,119) in Wayco's accounts, after providing for an additional 6 months of depreciation for the buildings to 30 June 2017. But it was RM6,400,009 (RM4,563,890+RM1,836,119) as of 30 June 2017 according to Annex A.

Note that the 2016 accounts were signed off by the directors on 13 June 2017 (as shown in the extract below taken from Wayco's audited accounts) - i.e., just 17 days before the date stated in Annex A.


Signed on behalf of the Board in accordance with a resolution of the directors

Kow Soo Woon

Ang Kong Meng

Johor Bahru

Date: 1 3 JUN 2017

We can see the same thing for Property 3, which is the "Investment Properties" in Note 5. The book value of the building as of 31 December 2016 shown in Note 5 was RM171,140. The building depreciation of 6 months until 30 June 2017 was 1% of the cost of RM199,000. Therefore, the book value of the building as of 30 June 2017 should be RM169,150. This is exactly the amount DT disclosed in Annex A above for "Building – Kl Shop Office".

If we look at the freehold land on which this shop office building sits in the audited accounts, the book value is RM335,000. However, in Annex A, that same freehold land has a book value of RM930,850. In other words, the total book value of this investment property (freehold land and building) should have been RM504,150

(RM335,000+RM169,150) based on Wayco's accounts as of 30 June 2017, but it was RM1,100,000 (RM930,850+RM169,150) as at 30 June 2017 according to Annex A.

Note also that Wayco's accounting policies for property, plant and equipment and investment properties which are shown below clearly state that they are based on cost less accumulated depreciation (for freehold land, there is no depreciation). In other words, based on its accounting policies, there is no basis for any revaluation of the freehold land.

3. **SIGNIFICANT ACCOUNTING POLICIES**

a) **Property, plant and equipment and depreciation**

All items of property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets.

a) **Property, plant and equipment and depreciation (cont'd)**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with assets would flow to the company and the cost of the asset can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Freehold land is not depreciated. Depreciation of other property, plant and equipment is calculated to write off the cost of the assets to their residual values on a straight line basis over their estimated useful lives at the following annual rates:

b) **Investment properties**

Investment properties are properties which are owned or held under a leasehold interest to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or services, or for administration purpose or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties. Investment properties are initially measured at cost, including transaction costs. Cost of self-constructed investment properties comprise all direct and indirect construction costs but exclude internal profits.

After initial recognition, investment properties are measured at cost less accumulated depreciation and any impairment losses as the fair value cannot be measured reliably without undue cost or effort due to lack of reliable evidence about comparable market transactions.

The Directors' Report signed on 13 June 2017 also confirmed that **"At the date of this report, the directors are not aware of any circumstances which have arisen which render**

adherence to the existing methods of valuation of assets or liabilities of the company misleading or inappropriate." (see extract below). Yet, within 17 days of the Wayco directors signing the directors' report and making this statement, the book values of the freehold land had increased by 89% based on the book values provided by DT in Annex A.

> **VALUATION METHODS**
>
> At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the company misleading or inappropriate.

Note that I am not saying that the market values of the three properties should necessarily be close to their book values. However, I would be very concerned if the book values were adjusted upwards to give the impression to shareholders that the valuations provided by the valuers who were appointed and paid by the vendor were "fair" because they were close to the book values.

Book values of other Wayco fixed assets

The book values for other fixed assets in Annex A were also considerably higher than the book values that should be recorded in Wayco's accounts. According to Annex A, the total of the book values of these other fixed assets as of 30 June 2017 was RM486,418.64 (total book value of RM7,986,428.64 minus the six book values of the properties). Wayco's financial statements Note 4 states that the total book values of these assets as of 31 December 2016 was RM256,620 (RM198,293 + RM32,812 + RM25,515). The accounting policies for these remaining fixed assets state that annual depreciation is 12.5% to 33% of the asset cost on a straight line basis (see depreciation rates shown under note 5 earlier). Using the lowest rate of 12.5%, 6 months depreciation is 6.25% on the cost of these assets. The cost of these remaining assets as of 31 December 2016 was RM2,717,142 and therefore 6 months' depreciation is a minimum of RM169,821. This will bring down the book values as of 30 June 2017 to RM86,799 (RM256,620-RM169,821). This is RM399,619 below the book values stated in Annex A. In other words, the total book value of these fixed assets in Annex A was 460% above the maximum book value would be in Wayco's accounts based on Wayco's accounting policies.

In the case of these other fixed assets, there could be additions between 31 December 2017 and 30 June 2017 which explain the higher book value in DT's response. However, for the year ending 31 December 2016, additions to these other fixed assets only amounted to RM51,262. I would therefore not expect additions to explain the RM486,418 difference between what should be in Wayco's books and the board's response as at 30 June 2017. Further, in the board's response, plant and machinery for the factory accounted for RM396,329.72 out of RM486,418.64 of the book value of these other fixed assets. According to the circular, "certain of Wayco Manufacturing's assets such as plant and machineries have been almost fully depreciated" and the manufacturing facilities were described as being "fully depreciated or expected to be fully depreciated in the near future".

Again, the difference in the book values of these fixed assets as of 30 June 2017 in Annex A compared to the amounts that should be in Wayco's accounts needs to be explained.

Summary

To summarise, this is what happened. The book values of the three properties owned by Wayco were RM3,958,754 as at 30 June 2017 according to Wayco's accounts, but they were RM7,500,010 (or by 89% higher) according to the board's response to SGX. The difference is due to the book values of the three pieces of freehold land being much higher in the latter.

When the valuers appointed by the vendor valued these three properties in late November and early December, they valued them at RM7,300,000. **This would suggest that the valuers valued the properties at 2.67% below the book values of RM7,500,100 as at 30 June 2017 (or 2.35% based on book values of RM7,475,855 as of end of November after allowing for another 5 months depreciation for the buildings). However, they would have valued the properties at 84.4% above the book values of RM3,958,754 based on Wayco's accounts as of 30 June 2017 after deducting another 6 months of depreciation for the buildings (or 85.5% based on book values of RM3,934,509 as of end of November after allowing for another 5 months depreciation for the buildings).**

The book values of other fixed assets were similarly higher in the board's response to SGX compared to Wayco's accounts as at 30 June - by at least RM399,619 or 460%. In fact, the total book value of these other fixed assets in Annex A was higher than the total book value of these assets in Wayco's accounts 6 months earlier – as at 31 December 2016, even though these assets depreciate at a minimum rate of 12.5% per year.

The Wayco directors had also confirmed on 13 June 2017 that the valuation methods were appropriate. Under Wayco's accounting policies, fixed assets are to be measured at cost less accumulated depreciation. There is no provision for revaluation. Indeed, the accounting policy for investment properties specifically states: "After initial recognition, investment properties are measured at cost less accumulated depreciation and any impairment losses **as the fair value cannot be measured reliably without undue cost or effort due to lack of reliable evidence about comparable market transactions** (emphasis is mine)." Yet, the book value of the freehold land under investment properties had somehow increased from RM335,000 to RM930,850 between 13 June 2017 and 30 June 2017.

In total, the book values of Wayco's fixed assets shown in Annex A is at least RM3,940,965 (RM3,41,346+RM399,619) or 97% higher than the book values based on the Wayco's accounts (adjusted for additional depreciation).

Based on the revised book values of RM4,045,553 or about S$1,340,030 as of 30 June 2017, and the consideration of S$3,433,760, DT paid 2.56 times of book value, not 1.3 times based on the book values in Annex A provided by DT in its response to SGX. (Based on book values as of 15 December 2017, the date of completion of Wayco's acquisition, it would be 2.65 times).

Wayco's profits

When DT first announced the acquisition of Wayco on 12 December 2017, it stated: "The Board is of the view that the Proposed Acquisition is opportune for the Company to acquire a profitable business and diversify its core business into the beauty/wellness products or industry, which should have reasonable prospects for growth." The directors also made similar statements about Wayco being a profitable business in the EGM circular (e.g., on page 36).

Further, on page 35 of the EGM circular, the directors said as part of its due diligence prior to deciding to acquire Wayco, the Board had taken certain steps or actions to review and evaluate Wayco's business, including "Review and consideration of the financial performance of Wayco based on the audited accounts for the financial years ended 31 December 2014, 31 December 2015 and 31 December 2016 and the unaudited accounts of Wayco for the financial period ended 30 June 2017."

Let's look at the actual profitability of Wayco. According to the company's announcement of 12 December 2017, Wayco unaudited after-tax profit was RM160,632 (or S$53,201) for the six months to 30 June 2017. On an annualised basis, the after-tax profit for the year ended 31 December 2017 was S$106,402.

According to Wayco's audited accounts for the year ended 31 December 2016 shown below, after-tax profit was RM125,801 or just S$41,670.

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 RM	2015 RM
Revenue			
Sale of goods		4,113,196	3,385,033
Cost of sales		(3,652,696)	(2,855,851)
Gross profit		460,500	529,182
Other operating income		155,201	42,277
Selling and distribution expenses		(82,980)	(38,396)
Administration expenses		(372,232)	(492,447)
Profit from operations	15	160,489	40,616
Finance costs	16	(23,860)	(11,486)
Profit before tax		136,629	29,130
Tax expense	17	(10,828)	(34,416)
Profit/(loss) for the year		125,801	(5,286)
Retained profits brought forward		2,667,559	2,672,845
Retained profits carried forward		2,793,360	2,667,559

15. PROFIT FROM OPERATIONS

This is determined after charging/(crediting) the following:-

	2016 RM	2015 RM
Cost of inventories recognised as an expense	3,652,696	2,855,851
Depreciation		
- property, plant and equipment	111,314	110,940
- investment properties	3,980	3,980
Directors' remuneration		
- fee	300	300
- other emoluments	79,292	76,476
Employee benefits:		
- defined contribution plan expenses	65,184	65,839
Loss on foreign exchange - realised	8,979	3,814
- unrealised	-	129,824
Audit fee	8,000	8,000
Hire of equipment	3,600	4,200
Rental received	(36,000)	(27,750)
Gain on foreign exchange - unrealised	(60,516)	-
Interest received	(7)	-
Gain on disposal of property, plant and equipment	-	(3,000)

In other words, Wayco's unaudited annualised profit for FY2017 was said to be more than 2.5 times its audited profits for FY2016. If the value of the property, plant and equipment is now higher than the book value as at 31 December 2016 (as discussed earlier), this would mean higher depreciation. This would adversely impact upon the profitability of Wayco in FY2017 and going forward.

Note from the income statement above taken from the audited accounts for the year ended 31 December 2016, that other operating income, which included inter alia a net foreign exchange gain of RM51,537 and rental income of RM36,000, was RM155,201. This was larger than the total before-tax profit of RM136,629. Therefore, the profitability of the core hair care business is questionable.

The table below taken from page 28 of the circular shows Way Company sales in Singapore. As the paragraph above the table explains, sales of Wayco in Singapore is mainly to Way Company, which in turn sells through different channels (the circular notes that Wayco's sales in Malaysia only accounts for 15% of its total revenues). Notice that the revenues for Way Company have declined by 9.3% between FY2016 and FY2017 (based on difference between annualised FY2017 sales and actual FY2016 sales), and this decline is across all sales channels.

Sales by Wayco in Singapore is mainly to Way Company and mainly for hair styling products such as hair gel, hair spray and hair mousse and predominantly under the "Goodlook & wave" brand. Way Company operates a network of sales offices which undertakes the marketing and sales of such products to grocery, retail, beauty stores and salons in Singapore, and also to overseas customers through exports.

A breakdown of such sales for FY2016 and FY2017 is set out below:

Category	Revenue 11mFY2017 (S$)	Percentage (%)	Revenue FY2016 (S$)	Percentage (%)
Salons	333,050.76	13	414,630.39	14
Supermarkets & Retail Stores	1,755,342.40	70	2,082,328.13	69
Overseas customers	417,384.19	17	516,594.90	17
Total	2,505,777.35	100	3,013,553.42	100

Therefore, any increase in profits for Wayco in 2017 is unlikely to be due to increased sales to external customers.

As I have written in my previous articles, Wayco is analogous to the manufacturing division in a company, and Way Company and Wayco Trading are like its sales and distribution divisions. The profits of each of these companies is to a great extent determined by internal transfer prices between the three companies, which may not necessarily be based on arms-length market prices (they could be also determined by tax considerations, especially given that Malaysia corporate tax rate is lower than Singapore, and Way Company is a Singapore company, and Wayco and Wayco Trading are Malaysia companies). The Ernst & Young (EY) review states that one of the four conditions for Wayco to be sustainable is that "there are fair commercial terms regarding the sharing of profit margins and payment collection terms with its current key customer [Way Company]."

In other words, the supposedly historical profitability of Wayco is not meaningful for assessing its future profitability as it was a matter of profit sharing between Wayco, Way Company and Wayco Trading. Since all the companies were owned by AKM, it did not matter under which company the profits were reported (except for tax considerations) as they all ultimately belonged to AKM anyway.

Consider the income statements of Wayco and Wayco Trading below (I could not obtain Way Company's accounts). Wayco's gross profit margin was 11.2% in FY2016 and 15.5% in FY2015, while Wayco Trading's gross profit margin were 59% and 52.6% respectively. Since Wayco sells to Way Trading (and especially Way Company), the revenue of Wayco and the cost of sales for Way Trading (and Way Company) will be significantly determined by transfer prices that are charged for such sales. Higher transfer prices will increase the revenue of Wayco and increase the cost of sales for Wayco Trading (and Way Company), and vice versa, and affect the profitability of each company.

WAYCO MANUFACTURING (M) SDN. BHD.
(Incorporated in Malaysia)

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 RM	2015 RM
Revenue Sale of goods		4,113,196	3,385,033
Cost of sales		(3,652,696)	(2,855,851)
Gross profit		460,500	529,182
Other operating income		155,201	42,277
Selling and distribution expenses		(82,980)	(38,396)
Administration expenses		(372,232)	(492,447)
Profit from operations	15	160,489	40,616
Finance costs	16	(23,860)	(11,486)
Profit before tax		136,629	29,130
Tax expense	17	(10,828)	(34,416)
Profit/(loss) for the year		125,801	(5,286)
Retained profits brought forward		2,667,559	2,672,845
Retained profits carried forward		2,793,360	2,667,559

WAYCO TRADING (M) SDN. BHD.
(Incorporated in Malaysia)

STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTE	2016 RM	2015 RM
Revenue Sale of goods		327,826	509,469
Cost of sales		(134,290)	(241,582)
Gross profit		193,536	267,887
Other operating income		-	8,000
Selling and distribution expenses		(14,665)	(38,371)
Administration expenses		(77,524)	(235,221)
Profit before tax	11	101,347	2,295
Tax expense	12	-	-
Profit for the year		101,347	2,295
Retained profits brought forward		625,799	623,504
Retained profits carried forward		727,146	625,799

If there was indeed an increase in profitability for Wayco in 2017, it was likely to be due to an increase in other operating income (which is not core to the business and is unpredictable), or one or more of the following factors: (a) increased unit sales to other Way companies that are building inventories in those companies; (b) changes in prices charged for purchases made by other Way companies; or (c) reduced costs in Wayco.

Note that any profit increase due to (a) or (b) is a “zero sum” game for the entire Way group of companies. If DT does not go on to acquire the other Way companies, Wayco’s profits will likely decline. If it does go on to acquire the other Way companies, then the increased profitability of Wayco in FY2017 is unlikely to translate to increased profitability for the entire group of Way companies. Reduced costs are unlikely to be sustainable because as page 44 of the Circular states: “Wayco may also need to incur capital expenditure, not only to expand, **but to upgrade its existing plant and machinery, as most of its manufacturing facilities are either fully depreciated or expected to be fully depreciated in the near future**.” (emphasis is mine). In other words, depreciation costs are likely to increase as the very old plant and machinery is replaced. Further, if the value of the property, plant and equipment is now higher as the board has now stated based on its response to SGX, this would mean higher depreciation. This would adversely impact upon the profitability of Wayco in FY2017 and going forward.

The higher unaudited profits of Wayco for the six months to 30 June 2017 may be due to increased unit sales that build inventories in downstream Way companies or adjustments in transfer prices. Based on the effective purchase consideration of $3,433,760 and FY2016 audited profits of Wayco of $41,670, the Wayco acquisition was at a P/E ratio of 82.4 times.

Further, as mentioned above, the profitability of the core hair care business is questionable as “other operating income” was larger than net profit before tax for Wayco. The table above also suggests that contrary to the board's claim about "reasonable prospects for growth" in the hair care business, sales were actually declining between FY2016 and FY2017 for Way Company (which accounts for 85% of Wayco's revenues).