1 THE METAL DOOR FRAME AND DOOR INDUSTRY IN MALAYSIA

Introduction

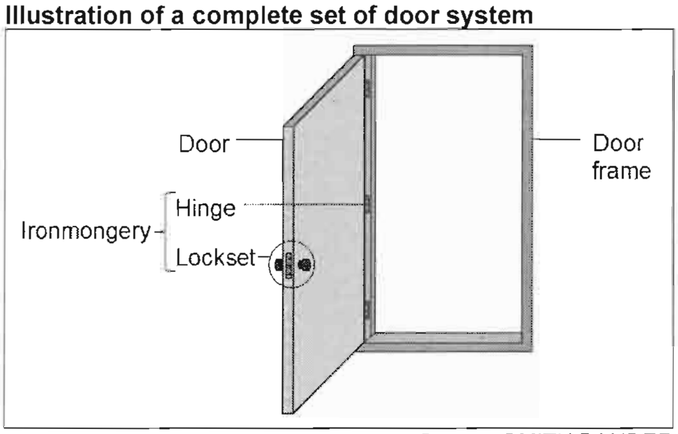
Doors are essential fixtures of a property with the primary purpose to provide security by controlling access to the property and within enclosed areas in the property. Doors are generally affixed to door frames which are enclosures that hold and support the doors. Door frames are commonly manufactured from metal (i.e. steel and aluminium), rigid polyvinyl chloride ("PVC"), un-plasticised polyvinyl chloride ("UPVC") and wood.

The materials used to manufacture a door is based on its usage requirements (e.g. water resistance, fire resistance, durability, rust resistance, weather proof, amongst others), aesthetics requirements and pricing. Doors for general usage are commonly made of wood-based materials, rigid PVC, UPVC and metal (i.e. steel and aluminium).

Special purpose doors such as fire resistant doors are made of fire resistant materials such as fire resistant boards and insulation materials where their main function is to provide protection by slowing the transfer of heat and flames when in contact with fire.

Doors are often incorporated with ironmongery which comprise locksets for latching and locking, and hinges to affix the doors to door frames; as well as door accessories (e.g. door viewers, door chains, door closers, amongst others). Ironmongery is commonly manufactured from steel, stainless steel, brass or aluminium.

Illustration of a complete set of door system



Source: SMITH ZANDER

In Malaysia, metal door frames and doors are sold as complete sets together with ironmongery or separately, and are assembled and installed at construction sites. Fire resistant doors are sold in complete sets of door system, comprising the fire resistant door, door frame and ironmongery, as the complete set has to undergo testing and certification as described in Section 3 of this IMR Report.

The value chain of the metal door frame and door industry is depicted below:

Manufacturing		Distribution	End user
• Raw material manufacturers	• Metal door frame and door manufacturers ➢ Brand owners ➢ Third party manufacturers	• Property developers/ contractors ➢ To install metal door frames and doors in new properties • Retailers/ stockists ➢ To sell metal door frames and doors to refurbishment contractors to be installed in refurbishment projects	• Owners and tenants of properties

Notes:

- *denotes the section of the value chain in which Econframe is principally involved in.*
- *This list is not exhaustive.*

Source: SMITH ZANDER

Brand owners may manufacture metal door frames and doors in their factories, or outsource the manufacturing to original equipment manufacturers ("OEM"). The metal door frames and doors sold to property developers or contractors are installed in new property projects at the construction sites, while door frames and doors sold to retailers or stockists are sold to contractors to be installed in refurbishment projects.

Each type of fire resistant door set manufactured and sold in Malaysia has to obtain product certification licence from SIRIM QAS International Sdn Bhd ("SIRIM") after being tested for fire resistance and cyclic movement endurance, to be in compliance with MS 1073: Part 3: 1996 (Amd. 1: 2003). As part of the information required for the application of the product certification licence, the applicant must provide the brand of the fire resistant door set as well as the name of the factory that will manufacture its fire resistant door set. The applicant, who is the brand owner, may manufacture the fire resistant door set in a factory which is registered under the same or different entity owned by them, or outsource to a factory owned by a third party. After obtaining the product certification licence, the Malaysian Fire and Rescue Services Department ("BOMBA"), the regulatory authority, will issue an approval certificate stating the fire resistance and cyclic movement endurance specifications, as well as the dimensions (i.e. height and width), of that particular type of fire resistant door set. Upon obtaining both the product certification license from SIRIM and the approval certificate from BOMBA, that particular type of fire resistant door set, with dimensions up to and including the dimensions specified in the product certification license and approval certificate, can be manufactured and sold. Further, ISO 9001:2015 Quality Management Systems certification from SIRIM is also required for the manufacturing of fire resistant door sets.

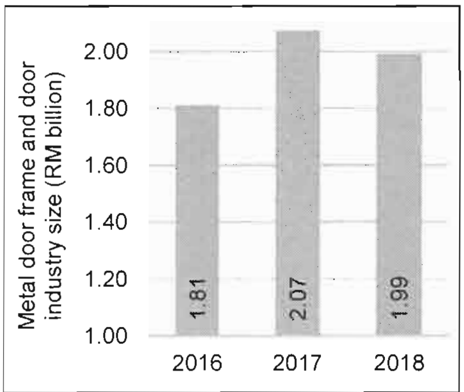
Industry Performance and Size

As Econframe is principally involved in the provision of total door system solution comprising metal door frames, fire resistant door sets, doors (i.e. wooden and metal) and ironmongery; and the top 2 products of Econframe are metal door frames and fire resistant door sets, which accounted for 82.89% of the total revenue in FYE 2019, this section shows the metal door frame and door industry size in Malaysia and the metal door frame and fire resistant door industry size in Malaysia.

Metal door frame and door industry size (Malaysia), 2016 – 2018

The metal door frame and door industry in Malaysia comprises metal door frames, fire resistant door sets, wooden doors, metal doors and ironmongery which form complete sets of door system. This industry grew from RM1.81 billion in 2016 to RM2.07 billion in 2017 and declined to RM1.99 billion in 2018. The Compound Annual Growth Rate ("CAGR") from 2016 to 2018 was 4.85%.

The metal door frame and door industry size in Malaysia is computed based on the revenue of 117 key industry players who are manufacturers of metal door frames, brand owners who manufacture their own fire resistant door sets under the same entity ("Fire Resistant Door Set Brand Owners") or manufacturers of fire resistant door sets, manufacturers of wooden doors and metal doors and distributors of ironmongery. Please refer to Section 3 of this IMR Report for further information on the key industry players.

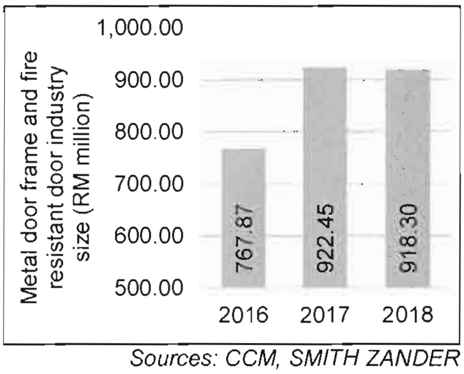


Sources: Companies Commission of Malaysia ("CCM"), SMITH ZANDER

Metal door frame and fire resistant door industry size (Malaysia), 2016 – 2018

The metal door frame and fire resistant door industry in Malaysia grew from RM767.87 million in 2016 to RM922.45 million in 2017 and declined to RM918.30 million in 2018. The CAGR from 2016 to 2018 was 9.36%.

The metal door frame and fire resistant door industry size in Malaysia is computed based on the revenue of 50 key industry players who are manufacturers of metal door frames and Fire Resistant Door Set Brand Owners or manufacturers of fire resistant door sets. Please refer to Section 3 of this IMR Report for further information on the key industry players.



Sources: CCM, SMITH ZANDER

Nevertheless, in view of the outbreak of the Covid-19 virus in early 2020, the Government has revised gross domestic product ("GDP") forecast growth in 2020, which was initially targeted at 4.80%, to the range of -3.50% to -5.50%, indicating potential adverse economic conditions for the year which may negatively impact the demand for properties and in turn affect the demand for metal door frames, fire resistant door sets, doors (i.e. wooden and metal) and ironmongery. However, the GDP is expected to stage a rebound within a growth range of 5.50% to 8.00% in 2021. Please refer to the next section on Key Drivers, Risk and Challenges for further information.

2 KEY DRIVERS, RISKS AND CHALLENGES

Key Industry Drivers

▶ **Growing usage of metal door frames due to its durability and cost effectiveness drives the demand for metal door frames**

Metal door frames are resistant to cracking and warping and therefore, they are more durable. Over time, metal door frames may be subject to rusting, scrapings or dents. However, rusting can be prevented by wax coatings and scrapes or dents can be treated with auto body fillers. Other materials used to manufacture door frames such as wood-based materials are susceptible to rotting or termite and insect infestations, which may require more complicated restoration processes or replacement of the door frames altogether. As such, installing metal door frames in properties has lower cost of upkeep, and therefore, is more cost effective over time. As a result, metal door frames have become a more popular choice as compared to door frames made from other materials, which will continue to drive the demand for metal door frames.

▶ **Regulatory requirements to have fire resistant elements, including fire resistant door sets in buildings, drive the demand for fire resistant door sets**

In Malaysia, it is mandatory for certain buildings to install fire resistant doors. This is specified under the Uniform Building by Law 1984, Malaysia's building code which is enforced by local authorities and applicable to all building types constructed in the local authorities' areas. The Uniform Building by Law 1984 stipulates procedures for building plans, of which, a section entitled 'Fire Requirements' lists requirements for the minimum periods of fire resistance (in hours) for certain buildings of purposes, including small residential, institutional, other residential, office, shop, factory, places of assembly and storage.

For example, escape routes in buildings of 4 storeys or more, or where the highest floor level is more than 1,200 millimetres above ground level, are required to be enclosed with fire resistant materials, and self-closing fire resistant doors for safety during evacuation.

The enforcement of the Uniform Building by Law 1984 coupled with the growth in the property market will drive the fire resistant door industry.

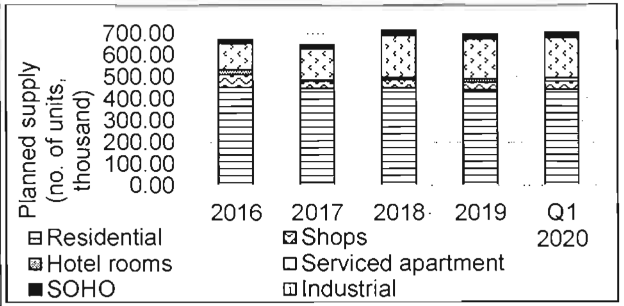
▶ **Demand for properties drives planned supply which leads to the increasing demand for metal door frames, doors and ironmongery**

Planned supply comprises property units with building plan approval obtained from the relevant local authorities but have not commenced construction works. Hence, planned supply represents the potential market for metal door frame and door industry players. This is because the number of door frames and doors needed will be pre-determined with the confirmation and approval of building plans. Subsequent to the approval, the property developer or contractor of the new property will appoint a supplier(s) of door frames and doors. Door frames and doors are delivered to construction sites on just-in-time basis, and the installation of door frames and doors is carried out at the construction site.

The chart and table below set out the planned supply for various types of properties in Malaysia from 2016 to 2019 and Q1 2020.

Planned supply for various types of properties (Malaysia), 2016 – Q1 2020

Type of properties	No. of units					Year-on-year ("YOY") 2016 – 2017	YOY 2017 – 2018	YOY 2018 – 2019
	2016	2017	2018	2019	Q1 2020			
Residential	451,913	448,199	449,685	441,309	443,730	-0.82	0.33	-1.86
Commercial								
Shops	59,581	32,371	37,236	35,183	35,107	-45.67	15.03	-5.51
Hotel rooms	21,987	7,435	11,172	14,810	15,748	-66.18	50.26	32.56
Mixed								
Serviced apartments	120,266	141,153	189,392	180,751	184,146	17.37	34.17	-4.56
SOHO	10,887	11,815	20,500	17,958	18,667	8.52	73.51	-12.40
Industrial	6,999	7,513	7,057	7,169	7,198	7.34	-6.07	1.59
Total	**671,633**	**648,486**	**715,042**	**697,180**	**704,596**	**CAGR (2016 - 2019): 1.25%**		



Source: National Property Information Centre

Despite the potential slowdown in the property market in 2020 in view of the outbreak of the Covid-19 virus in early 2020, some property developers, especially notable property developers (i.e. Gamuda, IJM, IOI Properties, Sime Darby, UOA, SP Setia, amongst others) are likely to continue with the construction of existing projects as they are obligated to hand-over the properties to the buyers within a predetermined time frame in order to maintain their reputation in the market. As such, there will still be demand for metal door frames, doors and ironmongery to support the on-going projects. However, property developers will be cautious in launching new projects and the new planned supply of properties is expected to decrease in the near future until economic conditions improve. This will affect the growth in the demand for metal door frames, doors and ironmongery.

Key Industry Risks and Challenges

▶ **Dependence on the property market**

The business operations and financial performance of metal door frame and door industry players are dependent on the performance of the property market in Malaysia. The outlook of the Malaysian property market may be affected by market risks such as political and economic instability of the country, increasing financing cost and fluctuating demand.

As such, any adverse changes in the above factors will have a direct impact on the movement and development in the property market in Malaysia. For instance, in view of the outbreak of the Covid-19 virus in early 2020, the Government imposed a Movement Control Order (MCO) throughout Malaysia from 18 March 2020 to 3 May 2020 to curb the spread of the virus, which halted most economic activities in Malaysia. The impact of the Covid-19 pandemic has temporarily dampened economic conditions of the country, which is expected to recover when the uncertainties caused by the impact of the Covid-19 pandemic subside or when its vaccine is made available. The prolonged dampening of economic conditions in Malaysia may lead to loss of businesses and jobs and subsequently reduce consumer purchasing power, including the purchase of properties.

The decrease in the demand for properties will subsequently lead to a decline in the planned supply of properties as property developers will be cautious in planning new projects. Consequently, the demand for metal door frames and doors will decrease, which could have a negative impact on the overall financial performance of metal door frame and door industry players.

▶ **Reliance on foreign workers as general labour**

The manufacturing of metal door frames and fire resistant door sets is semi-automated. While machinery such as shearing machines, stamping machines, computer numerical control (CNC) bending machines, cutting machines and pressing machines automate the manufacturing process, manual labour still remains critical for the operation of these machines, and to transfer the intermediary products from one machine to another for different manufacturing processes.

The issue of labour shortages in Malaysia is common in the manufacturing sector. Malaysia is dependent on foreign workers as a result of limited supply of local labour for manufacturing related operations.

Any increase in levy on foreign workers, suspensions and quota restrictions for the hiring of foreign workers may cause difficulties in employing sufficient labour. Further, any delays in foreign worker registrations may increase the duration required to process the applications, which may cause slowdowns and/or suspensions in manufacturing due to insufficient labour.

Any unfavourable changes in the policies on foreign workers and delays in foreign worker registrations may lead to difficulties for metal door frame and fire resistant door set industry players to maintain sufficient labour workforce, causing delays in delivery and subsequently may affect their business and operations.

▶ **Exposure to global steel price fluctuations**

The key raw material used in the manufacturing of metal door frames and metal doors is steel coils, and the price of steel coils in Malaysia is driven by global steel prices. Steel coils are susceptible to price fluctuations as a result of demand and supply conditions of steel in the global market, prices of raw materials for the production of steel such as coal and iron and prevailing energy costs.

Any unfavourable changes in the condition of any of the above factors may cause the prices of steel to increase materially, and this may lead to a rise in cost of production for metal door frame and metal door manufacturers, as well as carrying cost for maintaining inventories. If the metal door frame and metal door manufacturers are unable to pass on the raw material cost to their customers, they may have to bear the increasing costs, which could materially impact their financial results.

▶ **Exposure to sudden crisis in the country of origin for required supplies may cause disruption of operations**

Unexpected crises such as political crisis, natural disasters and disease outbreaks, amongst others, in the countries of origin for required supplies may temporarily disrupt the supply chain of door frames, doors and ironmongery. The outbreak of the Covid-19 virus in many countries around the world, is an example of this risk. Such crisis may cause the production of raw materials or intermediary products to be delayed or completely halted; and the transportation network may face disruptions due to closure of airports and other transportation hubs, causing delays in delivery of supplies. Consequently, the operations of manufacturers and/or distributors of door frames, doors and ironmongery in Malaysia may be affected due to the delay in receiving supplies. If disruptions persist, the manufacturers and/or distributors of door frames, doors and ironmongery may be required to purchase these supplies from different suppliers which may be at a higher cost, which will adversely affect the financial performance of the industry players.

3 COMPETITIVE LANDSCAPE

Competitive Overview

The metal door frame and door industry in Malaysia is moderately competitive, comprising industry players ranging from subsidiaries of public listed companies, large private companies and small to medium enterprises ("SME"). Industry players generally compete in terms of branding, pricing, range of products, quality of products and services, delivery timing and manufacturing capacities. Industry players also upkeep their manufacturing technologies and capabilities to remain competitive, including the adoption of automation which is in-line with the Government of Malaysia's initiative towards Industry 4.0 which encourages the adoption of automation in manufacturing processes.

For industry players such as Econframe that focuses on supplying to property projects, it is essential to build and maintain strong brand presence, good track record and business relationships with a network of property developers, contractors, architects and quantity surveyors to market their products, to have its brands specified in the bill of quantities[1] and to be invited to tender for property projects.

As Econframe is principally involved in the provision of total door system solution comprising metal door frames, fire resistant door sets, doors (i.e. wooden and metal) and ironmongery in Malaysia, this section will focus on the competitive landscape of these segments, as follows:

- Metal door frame industry players who are involved in the manufacturing of metal door frames as Econframe is involved in the manufacturing of metal door frames. Some of the metal door frame industry players may also sell other products such as metal window frames and ironmongery as their product offerings.
- Fire resistant door industry players who are involved in the manufacturing of fire resistant door sets as Econframe is involved in the manufacturing of fire resistant door sets. As each type of fire resistant door set manufactured and sold in Malaysia has to obtain product certification licence from SIRIM and approval certification from BOMBA, hence the fire resistant door industry players identified in this IMR Report are those who have these licences and certificates for their fire resistant door sets. Due to the nature of the registration of product licenses with SIRIM, the applicant must be the brand owner of the fire resistant door set as the brand of the fire resistant door set is required as part of the information in the application. Hence the brand owner will apply and hold the product licenses. In many cases, brand owners manufacture their fire resistant door set under the same entity (i.e. Fire Resistant Door Set Brand Owners). However, there are brand owners who manufacture their fire resistant door sets under a different entity owned by them or by a third party manufacturer. The factory name which manufactures the brand owners' fire resistant door set is disclosed in the product certification information listed on SIRIM's website. Therefore, the list of fire resistant door industry players takes into consideration Fire Resistant Door Set Brand Owners and the manufacturer of fire resistant door sets (whether they are owned within the group of the brand owner or owned by third party manufacturer). To avoid double counting, in the case where a brand owner manufactures its fire resistant door sets under a different entity owned by them or by a third party manufacturer, the brand owner will be listed as a key industry player, unless the brand owner's financial information is not publicly available. In such cases, the brand owner's registered factory will be included in the list.
- Wooden door industry players who are involved in the manufacturing of wooden doors as Econframe is involved in the manufacturing of wooden doors. These wooden door industry players manufacture wooden doors for different usage requirements and may also sell other products such as wooden door and window frames, mouldings, joineries and other wood-based products. Some of the metal door industry players may also sell other metal products such as shutters and louvres.

[1] *A document prepared by a quantity surveyor that lists out the quantities of supplies required for a specific project in accordance with the building design as stipulated by the architect, engineers and/or property developer. It is also used for tendering purposes by main contractors to prepare the tender based on the quantities of supplies specified.*

- Ironmongery industry players in Malaysia who are involved in the distribution of ironmongery and other related door accessories as Econframe is involved in the distribution of ironmongery. These ironmongery industry players may be brand owners who source ironmongery from overseas OEMs; or distributors who source ironmongery and other door accessories from brand principals. Ironmongery and other door accessories sold in Malaysia are primarily imported.

Nevertheless, these industry players may offer a product mix of metal door frames, fire resistant door sets, doors (i.e. wooden and metal), ironmongery and other building fixtures and materials.

Key Industry Players

The basis for selection of the key industry players in the metal door frame and door industry in Malaysia is as follows:

- Companies which are manufacturers of metal door frames; or Fire Resistant Door Set Brand Owners or manufacturers of fire resistant door sets; or manufacturers of wooden doors; or manufacturers of metal doors; or distributors of ironmongery; and
- Companies which recorded more than RM10.00 million revenue based on their respective latest available financial years, with the exception of Econframe where the revenue derived from each segment is listed for the purpose of comparison.

The identified key industry players include all industry players that were identified by SMITH ZANDER based on sources available, such as the internet, published documents and industry directories. However, there may be companies that have no online and/or published media presence, or are operating with minimal public advertisement, and hence SMITH ZANDER is unable to state conclusively that the list of industry players is exhaustive.

In instances where industry players are exempt private companies for the latest available financial year, or industry players with no publicly available financial reports, the industry players are not included in the table as the audited financial statements of the companies are not publicly available.

<u>Key metal door frame industry players</u>

The following manufacturers of metal door frames met the basis for selection as key industry players:

Company Name	Examples of products sold	Latest available financial year	Revenue (RM'000)	GP (RM'000)	GP margin (%)	PAT (RM'000)	PAT margin (%)
Asia Roofing Industries Sdn Bhd (a subsidiary of Ajiya Berhad)	Metal door frames and window frames, ceiling frames, roofing systems	30 November 2019	150,619	21,002	13.94	4,852	3.22
Cooldec Industries Sdn Bhd	Metal door frames and window frames, roofing systems	31 July 2019	23,774	3,106	13.07	(77)	(0.32)
Econframe	Metal door frames, fire resistant door sets, wooden doors, metal doors, ironmongery	31 August 2019	44,089	14,614	33.15	8,135	18.45
Econframe (metal door frame segment)		31 August 2019	24,002	7,366	30.69	Not available	
Hai Kang Steel (M) Sdn Bhd	Metal door frames and window frames, ceiling systems, partitions, flange angle, furring channels, metal studs	31 December 2018	40,232	7,557	18.78	326	0.81
HS Heng Seng Metal Sdn Bhd	Metal door frames and window frames, stainless steel water tanks	30 June 2018	12,741	1,977	15.52	146	1.15
Kiankwan Sdn Bhd	Metal door frames and window frames, containers, roofing systems, steel framework	31 December 2018	17,864	1,171	6.56	178	1.00
Lama Tile (Utara) Sdn Bhd/ Lama Metal Products Sdn Bhd[1]	Metal door frames and window frames	31 December 2019/ 31 December 2018	23,302/ 626	4,800/ (252)	20.60/ (40.26)	1,189/ (223)	5.10/ (35.62)
Metaframe Sdn Bhd	Metal door frames	31 December 2018	11,033	2,393	21.69	167	1.51
Thiam Sieng Steel Centre Sdn Bhd	Metal door frames, roofing systems, racking systems, galvanised iron ("GI") rolls, GI steel sheets, GI coils, purlin systems	30 September 2019	37,958	12,800	33.72	285	0.75

Company Name	Examples of products sold	Latest available financial year	Revenue (RM'000)	GP (RM'000)	GP margin (%)	PAT (RM'000)	PAT margin (%)
Yu Wah Steel (M) Trading Sdn Bhd	Metal door frames, roofing systems, metal rain gutters	31 December 2018	20,961	3,226	15.39	(450)	(2.15)

Note:
1. *These companies are related via common shareholders and/or directors.*

Key fire resistant door industry players

The following Fire Resistant Door Set Brand Owners or manufacturers of fire resistant door sets met the basis for selection as key industry players:

Company Name[1]	Examples of products sold	Latest available financial year	Revenue (RM'000)	GP (RM'000)	GP margin (%)	PAT (RM'000)	PAT margin (%)
Apexjaya Industries Sdn Bhd	Fire resistant door sets	31 December 2019	10,976	1,312	11.96	(224)	(2.04)
Assa Abloy Opening Solutions Malaysia Sdn Bhd (formerly known as Teamware Hardware Sdn Bhd)	Fire resistant door sets, ironmongery, glass doors	31 December 2018	67,926	22,796	33.56	2,872	4.23
Econframe	Metal door frames, fire resistant door sets, wooden doors, metal doors, ironmongery	31 August 2019	44,089	14,614	33.15	8,135	18.45
Econframe (fire resistant door segment)		31 August 2019	12,543	4,478	35.70	Not available	
Fitters Marketing Sdn Bhd (a subsidiary of Fitters Diversified Berhad)	Fire resistant door sets	31 December 2019	23,816	2,734	11.48	132	0.55
High Reserve Marketing Sdn Bhd	Fire resistant door sets, ironmongery	31 December 2018	32,003	6,372	19.91	(166)	(0.52)
Jurusanwa Enterprise Sdn Bhd/ Weng Meng Industries Sdn Bhd [2]	Fire resistant door sets, fire resistant window sets, wooden doors, cubicle systems	- [3]/ 31 July 2018	- [3]/ 112,925	- [3]/ 14,102	- [3]/ 12.49	- [3]/ 2,281	- [3]/ 2.02
Midah Industries Sdn Bhd (a subsidiary of Chin Hin Group Berhad)	Fire resistant door sets, wooden doors and door frames	31 December 2019	24,729	3,255	13.16	(4.32)	(0.02)
Samling Housing Products Sdn Bhd	Fire resistant door sets, wooden doors, furniture	30 June 2019	106,593	12,192	11.44	2,814	2.64
Sunstar Sdn Bhd	Fire resistant door sets, wooden doors, moulded doors with tempered glass, flush doors, PVC doors, FRP composite doors, louvres	30 June 2019	19,366	3,097	15.99	1,397	7.21
Unitech Industries (M) Sdn Bhd	Fire resistant door sets, ironmongery	31 March 2019	10,428	2,065	19.80	672	6.44
Woodlandor Wood Products Sdn Bhd (a subsidiary of Woodlandor Holdings Berhad)	Fire resistant door sets, wooden doors and door frames, furniture, timber roofing systems	31 December 2018	24,376	5,723	23.48	979	4.02

Notes:
1. *All of the industry players stated are Fire Resistant Door Set Brand Owners who hold the product certification licence and approval certificate, unless stated otherwise.*
2. *Jurusanwa Enterprise Sdn Bhd is the brand owner who holds the product certification licence and approval certificate while Weng Meng Industries Sdn Bhd is its registered factory that manufacture its fire resistant door sets. These companies are related via common shareholders and/or directors.*
3. *Financials are not available as it is an exempt private company.*

Key wooden door industry players

The following manufacturers of wooden doors met the basis for selection as key industry players:

Company Name	Examples of products sold	Latest available financial year	Revenue (RM'000)	GP (RM'000)	GP margin (%)	PAT (RM'000)	PAT margin (%)
Ah Hai Industries Sdn Bhd	Wooden doors and door frames, wooden window frames, flooring, mouldings	30 September 2018	28,783	7,681	26.69	735	2.55
CBL Marketing (M) Sdn Bhd	Wooden doors and door frames, security doors	28 February 2019	40,955	8,250	20.14	5,826	14.23
Comedge BMT Sdn Bhd	Wooden doors, security doors, fire resistant door sets, ironmongery	31 December 2018	17,126	1,514	8.84	805	4.70
Desa K.L. Enterprise Sdn Bhd	Wooden doors, fire resistant door sets, mouldings	31 May 2019	36,526	5,112	14.00	202	0.55
Econframe	Metal door frames, fire resistant door sets, wooden doors, metal doors, ironmongery	31 August 2019	44,089	14,614	33.15	8,135	18.45
Econframe (wooden door segment)		31 August 2019	4,372	1,132	25.89	Not available	
Furndor Sdn Bhd	Wooden doors	31 December 2018	10,892	592	5.44	34	0.31
Ivory Pearl Sdn Bhd	Wooden doors and door frames	31 December 2018	42,659	6,875	16.12	3,332	7.81
Jurusanwa Enterprise Sdn Bhd/ Weng Meng Industries Sdn Bhd [1]	Fire resistant door sets, fire resistant window sets, wooden doors, cubicle systems	- [2]/ 31 July 2018	- [2]/ 112,925	- [2]/ 14,102	- [2]/ 12.49	- [2]/ 2,281	- [2]/ 2.02
Kin Soon Industry Sdn Bhd	Wooden doors and door frames, mouldings, furniture	30 September 2018	10,551	1,608	15.24	587	5.56
KLW Wood Products (M) Sdn Bhd	Wooden doors	31 March 2019	41,027	9,083	22.14	343	0.84
Maicador Sdn Bhd	Wooden doors	30 June 2019	15,621	967	6.19	(1,247)	(7.98)
Midah Industries Sdn Bhd (a subsidiary of Chin Hin Group Berhad)	Fire resistant door sets, wooden doors and door frames	31 December 2019	24,729	3,255	13.16	(4.32)	(0.02)
Perusahaan Perkayuan Wan Feng Sdn Bhd	Wooden doors and door frames	31 December 2018	12,741	2,367	18.58	247	1.94
Samling Housing Products Sdn Bhd	Fire resistant door sets, wooden doors, furniture	30 June 2019	106,593	12,192	11.44	2,814	2.64
Stanford-Dor Marketing (M) Sdn Bhd	Wooden doors, PVC doors, louvres	31 December 2018	21,051	2,602	12.36	39	0.19
Sunstar Sdn Bhd	Fire resistant door sets, wooden doors, moulded doors with tempered glass, flush doors, PVC doors, FRP composite doors, louvres	30 June 2019	19,366	3,097	15.99	1,397	7.21
Woodlandor Wood Products Sdn Bhd (a subsidiary of Woodlandor Holdings Berhad)	Fire resistant door sets, wooden doors and door frames, furniture, timber roofing systems	31 December 2018	24,376	5,723	23.48	979	4.02

Notes:

1. *These companies are related via common shareholders and/or directors.*
2. *Financials are not available as it is an exempt private company. Nevertheless, Jurusanwa Enterprise Sdn Bhd is included as the company is the product certification licence and approval certificate holder for fire resistant door sets manufactured by Weng Meng Industries Sdn Bhd.*

Key metal door industry players

The following manufacturers of metal doors met the basis for selection as key industry players:

Company Name	Examples of products sold	Latest available financial year	Revenue (RM'000)	GP (RM'000)	GP margin (%)	PAT (RM'000)	PAT margin (%)
Econframe	Metal door frames, fire resistant door sets, wooden doors, metal doors, ironmongery	31 August 2019	44,089	14,614	33.15	8,135	18.45
Econframe (metal door segment)		31 August 2019	236	88	37.29	Not available	
SKB Shutters Manufacturing Sdn Bhd (a subsidiary of SKB Shutters Corporation Berhad)	Metal doors, shutters, louvres, storage systems	30 June 2019	47,206	10,175	21.56	1,450	3.07
THC Metal Engineering Sdn Bhd	Metal doors, grills, security doors	31 July 2019	17,530	7,212	41.14	2,654	15.14

Key ironmongery industry players

The following distributors of ironmongery met the basis for selection as key industry players:

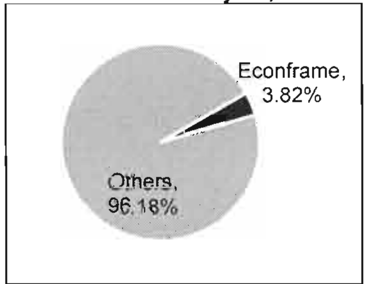
Company Name	Examples of products sold	Latest available financial year	Revenue (RM'000)	GP (RM'000)	GP margin (%)	PAT (RM'000)	PAT margin (%)
Agrow Corporation Sdn Bhd (a subsidiary of OCB Berhad)	Ironmongery, sanitary ware, security doors	31 December 2019	49,701	10,135	20.39	(778)	(1.57)
Assa Abloy Opening Solutions Malaysia Sdn Bhd (formerly known as Teamware Hardware Sdn Bhd)	Fire resistant door sets, ironmongery, glass doors	31 December 2018	67,926	22,796	33.56	2,872	4.23
Comedge BMT Sdn Bhd	Wooden doors, security doors, fire resistant door sets, ironmongery	31 December 2018	17,126	1,514	8.84	805	4.70
Econframe	Metal door frames, fire resistant door sets, wooden doors, metal doors, ironmongery	31 August 2019	44,089	14,614	33.15	8,135	18.45
Econframe (ironmongery segment)		31 August 2019	2,936	1,550	52.79	Not available	
Hafele (Malaysia) Sdn Bhd	Ironmongery, furniture fittings, home appliances, sanitary fittings	31 December 2019	28,483	9,282	32.59	(1,347)	(4.73)
High Reserve Marketing Sdn Bhd	Fire resistant door sets, ironmongery	31 December 2018	32,003	6,372	19.91	(166)	(0.52)
Kaisu (M) Sdn Bhd	Ironmongery, roofing systems, sanitary ware	31 December 2018	11,199	2,885	25.76	930	8.30
Ken Prima Glass & Alum. Acc. Sdn Bhd	Ironmongery	31 December 2018	26,621	4,743	17.82	2,094	7.87
Keyline Consulting Sdn Bhd	Ironmongery, security doors	31 December 2018	12,220	4,043	33.09	189	1.55
Syn Tai Hung Trading Sdn Bhd (a subsidiary of Wah Seong Corporation Berhad)	Ironmongery, roofing systems, cement and concrete products, additives and chemicals, tiles, sanitary ware	31 December 2019	339,470	17,833	5.25	(5,774)	(1.70)
Unitech Industries (M) Sdn Bhd	Fire resistant door sets, ironmongery	31 March 2019	10,428	2,065	19.80	672	6.44
Vimax Trading Sdn Bhd	Ironmongery	31 December 2018	29,406	5,125	17.43	1,355	4.61

Sources: Econframe, various company websites, CCM, SMITH ZANDER

Market Share

Metal door frame and fire resistant door market share in Malaysia, 2018

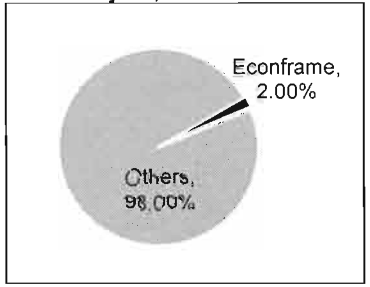
In 2018, the metal door frame and fire resistant door industry size in Malaysia, as represented by the revenue of manufacturers of metal door frames and manufacturers of fire resistant door sets, was RM918.30 million. For the FYE 2018, the segmental revenue of Econframe, derived from the sale of metal door frames and fire resistant door sets was RM35.05 million and thereby Econframe captured a market share of 3.82% in the metal door frame and fire resistant door industry in Malaysia.



Sources: Econframe, CCM, SMITH ZANDER

Metal door frame and door market share in Malaysia, 2018

In 2018, the metal door frame and door industry size in Malaysia, as represented by the revenue of manufacturers of metal door frames, manufacturers of fire resistant door sets, manufacturers of wooden doors and metal doors and distributors of ironmongery, was RM1.99 billion.
For the FYE 2018, the group revenue of Econframe was RM39.83 million and thereby Econframe captured a market share of 2.00% in the metal door frame and door industry in Malaysia.



Sources: Econframe, CCM, SMITH ZANDER

4 OUTLOOK AND PROSPECTS

Despite positive historical growth in the size of the metal door frame and door industry which grew at a CAGR of 4.85% from 2016 to 2018 and the size of the metal door frame and fire resistant door industry which grew at a CAGR of 9.36% from 2016 to 2018, the growing usage of metal door frames due to its durability and cost effectiveness, and regulatory requirements making it mandatory for certain buildings to install fire resistant doors, the outlook of the metal door frame and door industry in Malaysia is expected to experience slower demand in the near future, premised on the potential slowdown in the property market in 2020 in view of the outbreak of the Covid-19 virus in early 2020, which will affect the demand for metal door frames, doors and ironmongery. However, some property developers, especially notable property developers (i.e. Gamuda, IJM, IOI Properties, Sime Darby, UOA, SP Setia, amongst others) are likely to continue with the construction of existing projects as they are obligated to hand-over the properties to the buyers within a predetermined time frame in order to maintain their reputation in the market. As such, there will still be demand for metal door frames, doors and ironmongery to support the on-going projects. Further, Bank Negara Malaysia had announced several measures to mitigate the economic impact of Covid-19 such as the decrease in the statutory reserve requirement ratio from 3.00% to 2.00% to release liquidity into the banking system; several reductions in the Overnight Policy Rate which had reduced from 3.00% as at January 2020 to 1.75% as at July 2020; and a 6 months loan deferment until October 2020 to ease the cash flow of individuals and SMEs. In addition, in an effort to stimulate the property market, the Government has reintroduced the Home Ownership Campaign where home buyers are provided with stamp duty exemption and incentive of at least 10% discount on the sale price between 1 June 2020 to 31 May 2021; as well as lifted the 70% margin of financing limit for third housing loan onwards in its short-term economic recovery package. However, property developers will be cautious in launching new projects and the new planned supply of properties is expected to decrease in the near future until economic conditions improve. Since the outbreak of Covid-19 virus is unprecedented, the extent of the uncertainties caused to the property market is not clear at this point in time until economic conditions recover and the impact of the Covid-19 pandemic subsides or ends. In the effort to boost the economy, the Government is formulating a medium term plan to revitalise the economy which will be announced in October or November 2020 and a long term plan to reform the structure of the country's economy which will be announced in January 2021.

9. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS OUTLINED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS THAT MAY HAVE A SIGNIFICANT IMPACT ON OUR FUTURE PERFORMANCE, IN ADDITION TO ALL OTHER RELEVANT INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS BEFORE MAKING AN APPLICATION FOR OUR ISSUE SHARES.

9.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

9.1.1 Our business operations and profit was affected by the outbreak of the Covid-19 virus and imposition of the Movement Control Order

The government's imposition of the Movement Control Order nationwide from 18 March 2020 to 3 May 2020, as a measure to curb the spread of the Covid-19 virus, has halted most economic activities in Malaysia, including our manufacturing operations. Operationally, as we are unable to conduct our business operations during the Movement Control Order, this would result in a lower recognition of revenue for the current financial year as well as delays in the deliveries of our products. At the height of the Covid-19 pandemic, we incurred a loss after tax of approximately RM0.38 million in April 2020 as we still had to incur fixed overhead costs during the period our business was suspended.

We resumed operations at 50% of our work force on 20 April 2020 after obtaining approval from MITI on 17 April 2020 and after complying with the standard operating procedures and other rules and guidelines as required by MITI. We subsequently increased our work force to 100% under the conditional Movement Control Order on 4 May 2020.

Save for the above impact arising from the Movement Control Order, as at the LPD we have not encountered any cancellation of orders from our customers or disruption in supply from our suppliers. However, there can be no assurance that there will be no cancellation of orders or interruption to our business operations.

9.1.2 Absence of long-term contracts with our customers may result in fluctuation of our financial performance

Our Group does not enter into any long term contracts with our customers. We manufacture our products based on confirmed orders as the nature of our business is based on specific requirements of our customers. Our customers are mainly main contractors and building materials trading arms of property developers and they do not enter into long term contract with us as the design and requirement of their product needs vary for different projects.

The absence of long-term contracts may result in the fluctuation of our Group's revenue and overall financial performance as the orders from our customers are generally on a project-to-project basis. While our Group continuously seeks to maintain and strengthen our existing business relationships and establish relationships with new customers to expand our customer base, any adverse economic conditions, or slowdown in the property development industry in which our customers operate, may negatively impact our revenue, which will subsequently result in a decline in our financial performance.

9.1.3 We rely on skilled workers for our manufacturing operations

While we have semi-automated some of our manufacturing processes over the years, there is still a certain degree of dependency on manual labour. Although machineries such as shearing machines, stamping machines, CNC bending machines, cutting machines and pressing machines have semi-automated the manufacturing process, manual labour still remains critical for the operations of our machineries, to transfer intermediary products from one machine to be fed into another machine for different manufacturing processes, amongst others.

Currently, in our metal door frame manufacturing process, the profile forming is performed by our skilled workers. Similarly, our welding process for our metal door frames is assembled by our skilled workers carrying out manual welding. Manual welding is labour intensive and takes up significant manufacturing time. Further, it may take time to hire workers and thus, skilled workers who have resigned may not be replaced immediately. Additionally, new skilled workers will need to undergo on-the-job training for at least 2 years to gain sufficient skills and expertise to operate with minimal supervision and during this period, we may be faced with insufficient experienced skilled workers.

As at the LPD, we have 13 foreign workers (who account for 19.4% of our total workforce), all of whom we considered skilled workers and are involved in the manufacturing of our metal door frames and fire resistant doors.

In July 2020, the government announced that it will only allow employment of foreign workers in the construction, agriculture and plantation sectors in the future to cut the nation's reliance on foreign workers. The announcement will impose further challenges to the manufacturing sector in Malaysia, which relies on foreign workers for their operations, including to our Group. As the standard of living in Malaysia improves over time, we have found it increasingly difficult to hire local production workers for our manufacturing operations and this difficulty may increase in the future as the supply of foreign workers is further limited.

Any increase in levy on foreign workers, foreign labour suspensions and quota restrictions for the hiring of foreign workers may cause difficulties in employing sufficient labour. Any unfavourable changes in the policies on foreign workers and delays in foreign worker registrations may have a material and adverse effect on our operations and financial performance.

9.1.4 We may not be able to renew the Structure Permit

We currently operate out of Factory 1, Factory 2, Factory 3 and Factory 4 where the original buildings were issued with CF. We made certain additions to the front, side and back portions of the original structure of our factories, which include, but not limited to metal decking roofs over the existing factories, metal louvers, metal frame partition walls, storage cabins, septic tanks and toilets ("Additions").

MPK had certified the 'as-built' drawing plan for the Additions and subsequently issued its approval ("Approval") for these Additions as permitted temporary structures pursuant to By-Law 19(2) of the Building By-Laws for a period of 10 years. By-Law 19(2) of the Building By-Laws grants the local authority the discretion to issue a temporary permit for the erection of a temporary building which shall be subject to all or some of the conditions as set out in the Building By-Laws. Pursuant to the Approval, a Structure Permit is to be renewed annually. We currently possess a valid Structure Permit, which will expire on 31 December 2020. It is also a condition in the Approval that the Additions are to be removed prior to the expiry of the 10 year period.

As the Structure Permit has been issued at the discretion of MPK pursuant to By-Law 19(2) of the Building By-Laws, MPK has the right to revoke or not renew the permit. One of the conditions imposed on the Structure Permit expressly states that MPK can also cancel the Structure Permit in the event that Econframe Marketing breaches any of the conditions attached with the Structure Permit.

As we conduct the majority of our manufacturing operations out of the areas within the factories that were subject to the Additions, in the unlikely occurrence of the Structure Permit being revoked or not renewed, such event would result in a temporary halt in our manufacturing operations. We will thus need to identify a suitable rented premise(s) that can accommodate our manufacturing operations and relocate to the new premise(s) within the notice period specified by MPK, including applying for and obtaining necessary permits and licenses prior to the commencement of the manufacturing operations in the new premise(s).

As elaborated in Section 6.8.1, the chances of non-renewal of the Structure Permit are remote. Furthermore, as stated in Sections 4.9(i) and 7.17(ii)(a), it is also our intention to relocate/ expand our operations to a larger facility which forms part of our rationale to embark on the Listing to raise the necessary funding to finance the implementation of our plan. Upon the relocation to our new factory as part of our eventual plan, the Structure Permit no longer applies and will not have any effect on our overall business and financial performance. However, until we relocate to our new factory as part of our eventual plan as mentioned above, we cannot assure that MPK will not revoke or renew our Structure Permit in a timely manner, if at all prior to the expiry of the abovementioned 10 years period. As such, in the unlikely event that the Structure Permit is revoked or not renewed by MPK prior to our eventual relocation to the new factory, it will have a material adverse effect on the overall business and financial performance of our Group.

9.1.5 We are subject to risks on the maintenance or renewal of product certifications and approvals

Our fire resistant door sets have been tested and certified by SIRIM and approved by BOMBA. The certification from SIRIM and approval from BOMBA is a prerequisite for the commercial production and sales of fire resistant door sets in Malaysia. These certifications and approvals are renewed generally for 1 year from the date of its issue as shown in Appendix I.

Failure to renew or maintain the above certification and approval may result in us being unable to sell our fire resistant door sets. Our revenue contribution from fire resistant door sets contribute 3.8%, 20.9%, 28.5% and 33.2% of our total revenue for the FYEs 2017 to 2019 and FPE 2020 respectively.

The renewal or maintenance of the above certification and approval is dependent on our ability to manufacture and source the raw materials of our fire resistant door sets within the required specifications. We cannot assure that the relevant authorities will not revoke or not renew our certifications in a timely manner or at all.

9.1.6 We are subject to fluctuations in price of steel coils as a result of the fluctuation in global steel prices

Our metal door frames segment contributes approximately 50% of our Group's revenue. The key raw material used in the manufacturing of our metal door frames is steel coils. In the FPE 2020, steel coils constitute approximately 71.1% of our cost of sales for metal door frames. The price of steel coils fluctuates according to global steel prices. Steel prices are amongst others, subject to the demand and supply conditions of steel in the global market, prices of raw materials for the production of steel such as coal and iron and prevailing energy costs.

Any unfavourable changes in the conditions of any of the above factors may cause material increases in the price of steel, and this may lead to a rise in our cost of production as well as carrying cost for maintaining inventories. If we are unable to pass on the increase in our cost of production to our customers, we will need to bear the increasing costs and this will have a material impact on our financial results.

The cost of steel coils and the cost of sales for our metal door frames segment for the FYEs 2017 to 2019 and FPE 2020 are as follows:

	FYE 2017	FYE 2018	FYE 2019	FPE 2020
	RM'000	RM'000	RM'000	RM'000
Metal door frames				
Cost of steel coils	12,587	13,626	11,922	6,958
Cost of sales	16,828	17,714	16,636	9,784

The fluctuation in the prices of steel price has affected the cost of sales of our metal door frames segment for the FYEs and FPE under review in the following manner:

(i) In the FYE 2018, our cost of sales for our metal door frames increased by RM0.89 million (5.3%) as compared to the FYE 2017 mainly due to higher steel coil cost where the average price for electro-galvanised steel coil increased from RM3,068 per MT in the FYE 2017 to RM3,313 per MT in the FYE 2018 as a result of increase in global steel price.

(ii) In the FYE 2019, our cost of sales for our metal door frames decreased by RM1.08 million (6.1%) as compared to the FYE 2018 mainly due to the lower steel coil cost where the average price for electro-galvanised steel coil decreased from RM3,313 per MT in the FYE 2018 to RM3,080 per MT in the FYE 2019.

(iii) In the FPE 2020, our cost of sales for our metal door frames decreased by RM2.90 million (22.9%) as compared to the FPE 2019 mainly due to the lower steel coil cost where the average price for electro-galvanised steel coil decreased from RM3,086 per MT in the FPE 2019 to RM2,851 per MT in the FPE 2020.

9.1.7 Our business is exposed to sudden and unexpected equipment failures, flood or fires and burglary, which may lead to interruptions in our business operations

Our Group's manufacturing activities are dependent on various machineries and equipment that allow for shearing, bending, welding, as well as cutting, amongst others. These machineries and equipment may, on occasion, be out of service because of unanticipated failures or damages sustained during normal business operations. Further, our manufacturing facilities are also subject to interruptions caused by unforeseen events such as floods, fires and burglary.

These unexpected events may cause interruptions in, or prolonged suspension of, all or any part of our manufacturing activities; or any damage to, or destruction of, all or part of our manufacturing facilities. In addition, as our manufacturing activities are dependent on continuous supply of electricity, any major disruptions to the supply of electricity may result in interruptions in our operations.

Any prolonged interruptions to our operations will affect our production schedules and timely delivery of our products to our customers which may cause cancellation of purchase orders and may eventually impact our relationships with our customers. This could have an adverse impact on our business operations and financial performance.

We have not experienced any past incidence of unanticipated failures or damages sustained during operations which led to major interruptions in our operations. However, there can be no assurance that such incidences will not happen in the future which may result in interruptions to our operations and adversely affect our business operations and financial performance.

9.1.8 We rely on our Directors and key senior management for our continued success

We attribute our success to the leadership and continued contribution of our key senior management team and other personnel, led by our Managing Director. We believe that our continued and future success largely depend on our continued ability to hire, train, motivate and retain our key senior management and other personnel to develop new products, support our existing range of products and provide quality products to our customers.

Having a strong team of key senior management and other personnel is vital to maintain the quality of our Group's products whilst retaining the business confidence of our customers. The loss of our Directors, key senior management and other personnel simultaneously or within a short span of time without suitable and timely replacement, or our inability to attract and retain qualified and competent personnel, may adversely affect our Group's operations.

9.1.9 We may not be able to effectively manage our growth or successfully implement our business strategies

We have allocated RM9.00 million from our Public Issue proceeds to finance the capital expenditure for a new production facility and to automate part of our production line. Please refer to Sections 4.9 (a) and (b) for details of our proposed capital expenditure from the Public Issue proceeds.

Our business strategies involve a number of cost-related risks, including but not limited to, increased capital expenditures, increased depreciation charges, higher machineries and equipment maintenance costs as follows:

Business strategies	Cost related risks
- Land acquisition and construction of new factory	• Increased depreciation charges
- Acquisition of 4 robotic welding lines and 2 CNC bending machines in-built with robotic arms	• Increased operating expenditure arising from machineries and equipment maintenance costs • Increased depreciation charges

Following our expansion plan, additional operating costs, maintenance costs as well as depreciation charges will be incurred. If our Group fails to generate sufficient revenue to cover such additional costs and effectively grow our business, our financial performance may be adversely affected.

We are not able to guarantee that we will be successful in executing our business strategies, nor can we assure that we will be able to anticipate all the business and operational risks arising from our business strategies, include, among others, delays in construction, delays in obtaining approval from the relevant government bodies for the construction of the new factory and delays in machines delivery, amongst others. Any failure to do so, including any failure or inefficiencies in managing our business growth, may lead to a material adverse effect on our business operations and financial performance.

9.1.10 We will be exposed to new business risks arising from manufacturing of in-house wooden doors

Presently, we source our wooden doors from suppliers and distribute them to our customers. As part of our future plans (further detailed in Section 7.17), we intend to expand our manufacturing capabilities to manufacture our wooden doors in-house. Upon commencement of our wooden door manufacturing business, we will be exposed to new business risks such as shortage of raw materials, disruption in supply and/or other unforeseen risks in which our Group has not been previously exposed to. There can be no assurance that the occurrence of such risks and/or other unforeseen circumstances would not have any material adverse effect on our Group's operations and financial performance.

9.1.11 We are exposed to higher transactional costs arising from foreign exchange fluctuation differences which may impact our costs of raw materials

A portion of our raw material purchases are denominated in RMB. The following is our Group's breakdown of purchases made in RMB and RM during the FYEs 2017 to 2019 and FPE 2020:

	FYE 2017		FYE 2018		FYE 2019		FPE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Purchases transacted in RM	19,375	80.5	22,675	81.5	17,734	70.2	12,511	68.2
Purchases transacted in RMB	4,694	19.5	5,134	18.5	7,520	29.8	5,826	31.8
Total	**24,069**	**100.0**	**27,809**	**100.0**	**25,254**	**100.0**	**18,337**	**100.0**

The purchases transacted in RMB are largely for the purchase of ironmongery and fire resistant boards.

Our Group is exposed to transactional costs on purchases of raw materials for fire resistant boards and ironmongery from our suppliers in China. For the FYEs 2017 to FYE 2019, we do not recognise any gain or loss on foreign exchange fluctuations for the import of raw materials as the impact of the fluctuation is not material. For the FPE 2020, we recorded a realised foreign exchange loss of RM0.09 million, mainly due to the weakening of the RM against the RMB for the raw materials imported from China.

A depreciation of the RM against the RMB between the time the purchase were recorded and the payments were made to suppliers in China will lead to higher costs of raw material in RM. As our sales are transacted in RM and where our entire Group's revenue is derived locally, depreciation of the RM against the RMB will ultimately affect the cost of our purchases and may adversely affect our financial performance as it would reduce our GP margin as we are unable to pass the costs to our customers.

In the FPE 2020, our purchases of raw materials from our suppliers in China amounted to RM5.83 million. For illustration, assuming the fluctuation of RM against the RMB is 5% and such foreign exchange fluctuations is not passed on to customers by way of selling price changes, this will result in an increase or decrease in our GP for the FPE 2020 by RM0.29 million, depending on the direction of the foreign exchange movement between RM and RMB.

There can be no assurance that there will not be any material fluctuation in foreign exchange in the future that could result in us recording a higher cost of sales and adversely affect our GP margin and thus, our financial performance.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 Dependence on the property market

Our business operations and financial performance are dependent on the performance of the property market in Malaysia.

The outlook of the Malaysian property market may be affected by market risks such as political and economic instability of the country, increasing financing cost and fluctuating demand for real estate properties. As such, any adverse changes in the above factors will have a direct impact on the movement and development in the property market in Malaysia. The decrease in the demand for properties will subsequently lead to a decline in the planned supply of properties. Consequently, the demand for metal door frames and doors will decrease, which could have a negative impact on our overall financial performance.

9.2.2 We are subject to supply chain disruptions for our purchases which may result in the disruption of our operations

The occurrence of unexpected crises such as political crisis, natural disasters, and disease outbreaks, amongst others, in the countries of origin for our supplies may temporarily disrupt the supply chain for our purchases. An example for this risk is the recent Covid-19 virus epidemic, also known as the novel coronavirus, which originated in China. A portion of our purchases (i.e. ironmongery and fire resistant boards) are from China. Such crisis may cause our shipments to be delayed or completely halted; and/or we may face disruptions with the transportation network due to closure of airports, ports and other transportation hubs, thus causing delays in the delivery of our supplies. Without sufficient inventory on hand, this may affect our manufacturing operations due to the delays in receiving our supplies from China. If disruptions persist, we may be required to purchase our supplies from other suppliers which may be at a higher cost, and which will adversely affect our financial performance.

9.2.3 We are subject to the political, regulatory and economic risks in Malaysia

We supply our products to main contractors and building materials trading arms of property developers in Malaysia. As such, the financial performance and business prospects of our Group will depend on the political, economic and regulatory conditions in Malaysia. Any adverse developments in the political, economic and regulatory conditions in Malaysia could unfavourably affect our financial performance and business prospects. Amongst the political, economic and regulatory uncertainties that may affect our operations includes changes in the political leadership leading to unstable political situation, terrorism activities, changes in interest rates, fluctuation in currency exchange rates and unfavourable changes in government policies such as introduction of new regulations, import duties and tariffs.

On 10 January 2020, the Human Resources Ministry of Malaysia gazetted the Minimum Wages Order 2020 which states that the minimum wage rate payable to an employee who works within the specified 16 city councils and 40 municipal councils (of which Klang is one of the municipal councils mentioned) will be RM5.77 per hour or RM1,200 monthly commencing 1 February 2020. This is an increase from the RM1,100 per month minimum wage or RM5.05 per hour that was implemented nationwide under the Minimum Wage Order 2018. The increase in minimum wage has resulted in an increase in our cost of sales which may adversely affect our financial performance if we are unable to factor this increase in the pricing of our products.

There can be no assurance that any adverse political, economic and regulatory changes, which are beyond our control, will not unfavourably affect our future financial performance.

9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES

9.3.1 There has been no prior market for our Shares

Prior to our Listing, there has been no public trading for our Shares. The listing of and quotation for our Shares on the ACE Market does not guarantee that an active market for our Shares will develop.

There can be no assurance that the IPO Price will correspond to the price at which our Shares will be traded on the ACE Market.

9.3.2 Our Listing may be delay or aborted

Our Listing may be delayed or aborted should any of the following occurs:

(i) Our Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligations therein; and

(ii) We are unable to meet the public shareholding spread requirement whereby at least 25% of our enlarged issued share capital must be held by a minimum of 200 public shareholders each holding not less than 100 Shares at the point of our Listing.

If any of these events occur, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of the Applications within 14 days, failing which the provision of sub-section 243(2) of the CMSA will apply.

If our Listing is aborted and/or terminated, and our Shares have been allotted to the investors, a return of monies to the investors could only be achieved by way of cancellation of share capital as provided under Section 117 of the Act and its related rules.

Such cancellation requires the sanction of shareholders by special resolution in a general meeting, with notice to be sent to the Director General of the Inland Revenue Board and ROC within 7 days of the date of the special resolution and us meeting the solvency requirements under Section 117(3) of the Act.

There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

9.3.3 The trading price and volume of our Shares upon Listing may be volatile

The trading price and volume of our Shares may fluctuate due to various factors, some of which are not within our control and may be unrelated or disproportionate to our financial results. These factors may include variations in the results of our operations, changes in analysts' recommendations or projections, changes in general market conditions and broad market fluctuations.

The performance of Bursa Securities is also affected by external factors such as the performance of regional and world bourses, inflow or outflow of foreign funds, economic and political conditions of the country as well as growth potential of various sectors of the economy. These factors invariably contribute to the volatility of trading volumes witnessed on Bursa Securities, thus adding risks to the market price of our Shares.

9.3.4 Ability to make dividend payment on our Shares is dependent on the flow of dividends from our subsidiaries

Our Company is an investment holding company and we conduct all of our operations through our subsidiaries. Accordingly, our income will be derived mainly from dividends received from our subsidiaries. Hence, our ability to pay future dividends is largely dependent on the performance of our subsidiaries. The ability of our subsidiaries to pay dividends to us will depend upon their financial performance and availability of their distributable reserves, capital requirements for their operational needs and debt servicing commitment.

There can be no assurance that we would be able to pay future dividends on our Shares, as a result of the factors stated above. Furthermore, if we do not pay dividends or pay dividends at level lower than that anticipated by investors, the trading price of our Shares may be negatively affected and the value of any investment in our Shares might be reduced.

9.4 OTHER RISKS

9.4.1 Our Promoters will be able to exert significant influence over our Group

Our Promoters will collectively hold 68.1% of our enlarged share capital upon Listing. They will have significant influence over our business direction and the outcome of certain matters requiring shareholders' vote, unless they are required to abstain from voting by law and/or by the relevant authorities.

9.4.2 Forward-looking/prospective statements in this Prospectus may not be achievable

Certain statements or expectations or forecasts in this Prospectus are based on historical data which may not be reflective of future results. Forward-looking statements are based on assumptions and subject to uncertainties and contingencies.

There can be no assurance that such forward-looking statements or expectations or forecasts will materialise and actual results may deviate significantly. Such deviation may have a material and adverse effect on us.

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS

10.1 RELATED PARTY TRANSACTIONS AND OTHER TRANSACTIONS

10.1.1 Related party transactions

Save for the Acquisitions and amount owing to/from our Directors (details as set out in Section 10.1.2), there were no transactions, existing and/or potential, entered or to be entered into by our Group which involve the interests, direct or indirect, of our Directors, substantial shareholders and/or persons connected with them which are material to our Group during the FYEs 2017 to 2019, FPE 2020 and up to the LPD.

Moving forward, to ensure future related party transactions (if any) are undertaken on arm's length basis and on normal commercial terms, we have established the following procedures:

(i) Recurrent related party transactions

(a) At least 2 other contemporaneous transactions with 3rd parties for similar products and/or quantities will be used as comparison, wherever possible, to determine whether the price and terms offered by all related parties are fair and reasonable and comparable to those offered by third parties; or

(b) If quotation or comparative pricing from 3rd parties cannot be obtained, the transaction price will be determined by our Group based on those offered by 3rd parties for substantially similar type of transaction to ensure that the recurrent related party transactions are not detrimental to us.

Our Board shall seek a mandate from shareholders to enter into any recurrent related party transactions at general meetings of our Company. Due to its time-sensitive nature, the shareholders' mandate will enable us to enter into such recurrent transactions which are transacted in our ordinary course of business without having to convene numerous general meetings to approve such recurrent transactions as and when they are entered into.

(ii) Other related party transactions

(a) Whether the terms of the related party transaction are fair and on arm's length basis to our Group and would apply on the same basis if the transaction did not involve a related party;

(b) The rationale for our Group to enter into the related party transaction and the nature of alternative transactions, if any; and

(c) Whether the related party transaction would present a conflict of interest between our Group and the related parties, taking into account the size of the transaction and nature of the related parties' interest in the transaction.

Where required under the Listing Requirements, a related party transaction may require prior approval of shareholders at a general meeting to be convened. An independent adviser may be appointed to comment as to whether the related party transaction is fair and reasonable so far as the shareholders are concerned; and whether the transaction is to the detriment of minority shareholders. In such instances, the independent adviser shall also advise minority shareholders on whether they should vote in favour of the transaction.

For related party transaction that requires prior approval of shareholders, the Directors, major shareholders and/or persons connected to them, which have any interest, direct or indirect, in the proposed related party transaction will abstain from voting in respect of their direct and/or indirect shareholdings. Where a person connected with a Director or major shareholder has interest, direct or indirect, in any proposed related party transaction, the Director or major shareholder concerned will also abstain from voting in respect of his direct and/or indirect shareholdings. Such interested Directors and/or major shareholders will also undertake that he shall ensure that the persons connected with him will abstain from voting on the resolution approving the proposed related party transaction at the general meeting. The relevant directors who are deemed interested or conflicted in such transactions shall also abstain from our Board deliberations and voting on the Board resolutions relating to these transactions.

In addition, to safeguard the interest of our Group and minority shareholders, and to mitigate any potential conflict of interest situation, our Audit and Risk Management Committee will, amongst others, supervise and monitor any related party transaction and the terms thereof and report to our Board for further action. Where necessary, our Board would make appropriate disclosures in our annual report with regards to any related party transaction entered into by us.

10.1.2 Other transactions

(i) Transactions that are unusual in their nature or conditions

There were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party during the FYEs 2017 to 2019, FPE 2020 and up to the LPD.

(ii) Outstanding loans (including guarantees of any kind)

Save as disclosed below, there are no outstanding loans (including guarantees of any kind) made by our Group to/for the benefit of a related party during the FYEs 2017 to 2019, FPE 2020 and up to the LPD.

(a) Amount owing from Director

Other than the amount owing from our Director of RM1.30 million recorded as other receivable in the FYE 2018, there was no other amount owing from our Director of our Group. This amount relates to the advances extended by Econframe Marketing to our Director and has been settled in full during the FYE 2019. This amount is non-trade related, unsecured, interest free and repayable on demand. As at the LPD, we do not have any amount owing from any of our Directors.

(b) Amount owing to Director

Other than the amount owing to our Director of RM0.49 million recorded as other payables in the FYE 2017, there was no other amount owing to our Director of our Group. This amount relates to the advances extended by our Director to Econframe Marketing and has been settled in full during the FYE 2018. This amount is non-trade related, unsecured, interest free and repayable on demand. As at the LPD, we do not have any amount owing to any of our Directors.

These non-trade related party balances under item (a) and (b) above are denominated in RM and were not made on an arm's length basis as it does not carry any interest.

Moving forward, our Group will not provide any non-trade related advances to our Directors.

(iii) Transactions entered into with M&A Securities

Save as disclosed below, we have not entered into any transactions with M&A Securities who is the Adviser, Sponsor, Underwriter and Placement Agent in respect of our Listing:

(a) Agreement dated 6 September 2019 between Econframe Marketing and M&A Securities for the appointment of M&A Securities as Adviser, Sponsor and Placement Agent for our Listing; and

(b) Underwriting Agreement dated 25 August 2020 entered into between our Company and M&A Securities for the underwriting of 19,500,000 Issue Shares.

10.2 CONFLICT OF INTEREST

As at the LPD, none of our Directors or substantial shareholders has any interest, direct or indirect, in other businesses or corporations which are carrying on a similar or related trade as our Group, or are the customers and/or suppliers of our Group.

Moving forward, in order to mitigate any possible conflict of interest situation, our Directors will declare to our Nomination Committee and our Board their interests in other companies on the onset and as and when there are changes in their respective interests in companies outside our Group. Our Nomination Committee will then evaluate if such Director's involvement give rise to an actual or potential conflict of interest with our Group's business after the disclosure provided by such Director. If our Directors are involved in similar business as our Group or business of our customers and suppliers, our Nomination Committee shall inform our Audit and Risk Management Committee of such involvement. Where a determination has been made that there is an actual or potential conflict of interest of a Director, our Nomination Committee will:

(i) Immediately inform our Board of the conflict of interest situation after deliberating with our Audit and Risk Management Committee; and

(ii) Make recommendations to our Board to direct the conflicted Director to:

  (a) Withdraw from all his executive involvement in our Group in relation to the matter that has given rise to the conflict of interest (in the case where the conflicted Director is an Executive Director); and

  (b) Abstain from all Board deliberation and voting in the matter that has given rise to the conflict of interest.

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

10. RELATED PARTY TRANSACTIONS / CONFLICT OF INTERESTS *(Cont'd)*

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

10.3 DECLARATIONS OF CONFLICT OF INTEREST BY OUR ADVISERS

(i) Declaration by M&A Securities

M&A Securities has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Adviser, Sponsor, Underwriter and Placement Agent for our Listing;

(ii) Declaration by Ilham Lee

Ilham Lee has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Solicitors for our Listing;

(iii) Declaration by Baker Tilly

Baker Tilly has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Auditors and Reporting Accountants for our Listing; and

(iv) Declaration by Smith Zander

Smith Zander has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the IMR for our Listing.

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11. FINANCIAL INFORMATION

11.1 HISTORICAL FINANCIAL INFORMATION

Our historical financial information throughout the FYEs 2017 to 2019 and FPE 2020 have been prepared in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards. The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results and cash flows.

We completed the Acquisitions on 1 August 2020. Econframe Marketing and Econframe Pre-Hung are assumed to be under common control with our Group since their incorporation and prior to the Acquisitions. As such, the historical financial information of our Group for the FYEs 2017 to 2019 and FPE 2020 is presented based on the combined audited financial statements of the Econframe Group.

11.1.1 Combined statements of comprehensive income

The following table sets out a summary of our combined statements of comprehensive income for the FYEs 2017 to 2019 and FPE 2020 as well as the historical combined unaudited statements of comprehensive income for the FPE 2019 which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Accountants' Report set out in Sections 11.2 and 12 respectively.

	Audited			Unaudited	Audited
	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2019**	**FPE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	35,494	39,834	44,089	33,265	29,977
Cost of sales	(26,651)	(29,957)	(29,475)	(22,648)	(20,349)
GP	**8,843**	**9,877**	**14,614**	**10,617**	**9,628**
Other income	195	419	619	167	162
Administrative expenses	(3,357)	(2,496)	(3,290)	(2,464)	(3,276)
Sales and distribution expenses	(1,156)	(980)	(1,210)	(919)	(951)
Finance costs	(223)	(187)	(126)	(83)	(51)
PBT	**4,302**	**6,633**	**10,607**	**7,318**	**5,512**
Taxation	(1,192)	(1,536)	(2,472)	(1,718)	(1,301)
PAT/PATMI	**3,110**	**5,097**	**8,135**	**5,600**	**4,211**
Other comprehensive income, net of tax					
Item that will not be reclassified subsequently to profit or loss					
Surplus on revaluation of PPE	1,041	371	1,389	-	-
Other comprehensive income for the financial year/period	**1,041**	**371**	**1,389**	**-**	**-**
Total comprehensive income for the financial year/period	**4,151**	**5,468**	**9,524**	**5,600**	**4,211**
EBIT (1)	4,516	6,807	10,712	7,386	5,514
EBITDA (1)	5,038	7,252	11,214	7,742	5,910
GP margin (%) (2)	24.9	24.8	33.1	31.9	32.1
PBT margin (%) (3)	12.1	16.7	24.1	22.0	18.4
PAT/PATMI margin (%) (3)	8.8	12.8	18.5	16.8	14.0
Basic EPS (sen) (4)	1.20	1.96	3.13	2.15	1.62
Diluted EPS (sen) (5)	0.96	1.57	2.50	1.72	1.30

Notes:

(1) EBIT and EBITDA are calculated as follows:

	Audited			Unaudited	Audited
	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2019**	**FPE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
PAT	3,110	5,097	8,135	5,600	4,211
Less:					
Interest income	(9)	(13)	(21)	(15)	(49)
Add:					
Finance costs	223	187	126	83	51
Taxation	1,192	1,536	2,472	1,718	1,301
EBIT	**4,516**	**6,807**	**10,712**	**7,386**	**5,514**
Add:					
Depreciation and amortisation	522	445	502	356	396
EBITDA	**5,038**	**7,252**	**11,214**	**7,742**	**5,910**

(2) Calculated based on GP over revenue.

(3) Calculated based on PBT/PAT/PATMI (as the case may be) over revenue.

(4) Calculated based on PAT/PATMI for the financial year over our enlarged number of Shares in issuance before our IPO.

(5) Calculated based on PAT/PATMI for the financial year over our enlarged number of Shares in issue after our IPO.

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11. FINANCIAL INFORMATION *(Cont'd)*

11.1.2 Combined statements of financial position

The following table sets out the combined statements of financial position of our Group as at 31 August 2017, 2018 and 2019 and 31 May 2020 which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Accountants' Report set out in Sections 11.2 and 12 respectively.

	Audited			
	31 August			31 May
	2017	2018	2019	2020
	RM'000	RM'000	RM'000	RM'000
Non-current assets				
PPE	8,230	8,375	9,731	9,744
Investment property	2,550	2,800	324	324
	10,780	11,175	10,055	10,068
Current assets				
Inventories	1,893	2,757	2,909	3,747
Trade receivables	9,827	12,622	15,029	12,107
Other receivables	100	166	334	1,377
Current tax assets	-	-	-	205
Amount owing by director	-	1,296	-	-
Short term deposits	431	564	1,704	2,877
Cash and bank balances	1,342	1,336	3,177	3,089
	13,593	18,741	23,153	23,402
Total assets	**24,373**	**29,916**	**33,208**	**33,470**
Equity				
Invested equity	1,100	1,100	1,100	1,100
Retained earnings	12,629	17,536	20,681	24,900
Revaluation reserves	2,488	2,849	4,228	4,220
Total equity	16,217	21,485	26,009	30,220
Non-current liabilities				
Bank borrowings	858	660	569	515
Finance lease liabilities/lease liabilities	420	167	65	62
Deferred tax	1,148	1,169	1,497	1,435
	2,426	1,996	2,131	2,012
Current liabilities				
Trade payables	1,182	2,108	1,664	586
Other payables and accruals	405	515	902	442
Amount owing to director	488	-	-	-
Bank borrowings	2,652	2,606	1,508	164
Finance lease liabilities/lease liabilities	280	253	110	46
Taxation	723	953	884	-
	5,730	6,435	5,068	1,238
Total liabilities	**8,156**	**8,431**	**7,199**	**3,250**
Total equity and liabilities	**24,373**	**29,916**	**33,208**	**33,470**

11.1.3 Combined statements of cash flows

The following table sets out the combined statements of cash flows of our Group for the FYEs 2017 to 2019 and FPE 2020 which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Accountants' Report set out in Sections 11.2 and 12 respectively.

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from operating activities				
PBT	4,302	6,633	10,607	5,512
Add back:				
Depreciation of PPE	522	445	502	396
Bad debts recovered	-	-	(5)	-
Interest expenses	223	187	126	51
Fair value loss/(gain) on investment property	1,050	(250)	(400)	-
Impairment loss on trade receivables	-	-	31	-
Impairment loss on PPE	-	-	10	-
Bad debts written off	-	-	3	-
Reversal of impairment loss	-	-	-	(31)
Gain on disposal of PPE	(30)	-	-	-
Interest income	(9)	(13)	(21)	(49)
Operating profit before working capital changes	6,058	7,002	10,853	5,879
Changes in working capital:				
Inventories	(1,624)	(865)	(152)	(838)
Trade and other receivables, deposits and prepayments	647	(2,861)	(2,605)	1,910
Trade and other payables, accruals and provisions	(2,462)	1,035	(56)	(1,539)
Cash generated from operations	2,619	4,311	8,040	5,412
Finance costs paid	(34)	(12)	(2)	-
Tax paid	(1,483)	(1,283)	(2,543)	(2,452)
Net cash from operating activities	**1,102**	**3,016**	**5,495**	**2,960**
Cash flows from investing activities				
Purchase of PPE	(215)	(219)	(371)	(358)
Proceeds from disposal of PPE	30	-	-	-
Interest income received	9	13	21	49
Change in pledged deposits	(129)	(133)	(1,141)	(1,172)
Net cash used in investing activities	**(305)**	**(339)**	**(1,491)**	**(1,481)**
Cash flows from financing activities				
Interest paid	(189)	(175)	(124)	(51)
Net change in amount owing to director	(54)	(1,784)	1,296	-
Drawdown/(repayment) of bankers acceptance	349	(519)	(483)	(1,265)
Repayment of term loans	(147)	(190)	(47)	(133)
Repayment of finance lease liabilities/lease liabilities	(290)	(280)	(345)	(118)
Dividend paid	-	(200)	(1,800)	-
Proceeds from issuance of share capital upon incorporation	-	-	-	*
Net cash used in financing activities	**(331)**	**(3,148)**	**(1,503)**	**(1,567)**

	Audited			
	FYE 2017	FYE 2018	FYE 2019	FPE 2020
	RM'000	RM'000	RM'000	RM'000
Net increase/(decrease) in cash and cash equivalents	**466**	**(471)**	**2,501**	**(88)**
Cash and cash equivalents at beginning of the financial year/period	681	1,147	676	3,177
Cash and cash equivalents at end of the financial year/period	**1,147**	**676**	**3,177**	**3,089**

* Amount less than RM1,000.

11.2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and segmental analysis of our combined financial statements for the FYEs 2017 to 2019 and FPE 2020 should be read with the Accountants' Report included in Section 12.

11.2.1 Overview of our operations

(i) Principal activities

Our Group is principally involved in the following:

(a) Design and manufacturing of metal door frames;
(b) Manufacturing of fire resistant door sets;
(c) Manufacturing of metal doors; and
(d) Trading of wooden doors and ironmongery

Please refer to Section 7 for our Group's detailed business overview. Please refer to Section 9 for the risk factors that may affect our revenue and financial performance.

(ii) Revenue

Our Group's revenue are from the sale of our products. Geographically, our revenue is derived mainly from Malaysia.

Revenue from sale of goods is measured at fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised upon delivery of goods and acceptance by the customer or when the significant risks and rewards of ownership of the goods has been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. As such, our revenue is only recognised upon acceptance of our delivery by our customer.

(iii) Cost of sales

Our cost of sales for our manufacturing segment comprises raw materials, labour, production overheads and logistics while our cost of sales for our trading segment comprises supplies of fire resistant door sets, wooden doors and ironmongery as well as logistic costs for the importation of ironmongery and fire resistant boards.

(a) Raw materials

Our Group's raw materials for our manufacturing segment are mainly steel coils, ironmongery, fire resistant boards, insulation materials, fire seal, glue and plywood. These raw materials are mostly available locally and overseas and we source from our pool of suppliers locally and overseas.

(b) Labour costs

Labour costs comprises direct labour which are mainly salaries and wages of our workers (including its related levy, visa and recruitment cost) who are directly involved in the production of our products and sub-contractors' charges for the manufacturing of metal door frames.

(c) Production overheads

Production overheads consist mainly of utility expenses, depreciation of PPE in relation to our manufacturing facilities and upkeep and maintenance of factory and machineries.

(d) Logistics

Logistic costs consist mainly of freight charges incurred for the importation of ironmongery and fire resistant boards.

(iv) Other income

Other income comprises mainly rental income, interest received from fixed deposits placed with financial institutions, fair value gain on a piece of freehold agriculture land held for investment, gain on disposal of PPE and reversal of impairment loss.

(v) Administrative expenses

Administrative expenses comprise mainly overheads incurred to maintain our operations such as remuneration of administrative staff, directors' remuneration, depreciation of PPE, rental expenses, utilities cost, statutory audit and professional fees, and upkeep of office, office equipment and motor vehicles.

(vi) Sales and distribution expenses

Sales and distribution expenses consist of costs incurred directly for sales and marketing functions such as advertising expenses, and participation fees for trade exhibition cost, sales commission as well as travelling and accommodation expenses attributable to the sales and marketing function of our Group.

(vii) Finance costs

Finance costs comprise mainly interest expenses on borrowings of our Group.

(viii) Changes to accounting policies and estimates

Save as disclosed in Section 12, there were no other changes to our accounting policies and estimates during the financial years under review.

(ix) Recent developments

Save for the Acquisitions, there were no significant events subsequent to our Group's audited combined financial statements for the FPE 2020.

(x) Exceptional and extraordinary items and audit qualifications

There were no exceptional or extraordinary items during the FYEs 2017 to 2019 and FPE 2020. In addition, our audited combined financial statements for the financial years and financial period under review were not subject to any audit qualifications.

(xi) Significant factors affecting our business

Section 9 details a number of risk factors relating to our business and industry in which we operate in. Some of these risk factors have an impact on our Group's revenue and financial performance. The main factors which affect revenue and profits include but are not limited to the following:

(a) Outbreak of Covid-19 virus and the imposition of the Movement Control Order

The government's imposition of the Movement Control Order nationwide from 18 March 2020 to 3 May 2020, as a measure to curb the spread of the Covid-19 virus, has halted most economic activities in Malaysia, including our manufacturing operations. As we were not considered a critical sector for the supply of essential goods, we were unable to conduct our business operations during the Movement Control Order. Although we had resumed operations on 20 April 2020 at 50% of our work force and subsequently to 100% of our work force under the conditional Movement Control Order on 4 May 2020, we expect our financial performance moving forward, to be affected in terms of delayed revenue recognition for the period of the Movement Control Order, resulting in lower recognition of revenue for the current FYE 2020 as well as delays in the deliveries of our products.

(b) Exposure to fluctuations in the global steel price

Our metal door frames segment contributes approximately 50% of our Group's revenue. The key raw material used in the manufacturing of our metal door frames is steel coils and its prices fluctuates according to global steel prices, which may be subject to supply and demand conditions of steel in the global market. An increase in the global steel prices and the price of steel coils will increase our cost of sales which may affect our profitability, as well as carrying cost of our inventories.

(c) Lack of long-term contracts

Our sales are mainly derived from purchase orders and occasionally other forms of confirmed orders due to the nature of our business and customers' practices. Any adverse economic conditions, or slowdown in the industries where our customers operates may negatively impact our sales.

(d) Products certifications and approvals

Our fire resistant door sets is one of our key revenue contributors, contributing 3.8% to 33.2% of our Group's total revenue for the financial years/period under review.

Our fire resistant door sets have been certified by SIRIM and approved by BOMBA to be compliant with MS 1073 : Part 3 : 1996 (AMD.1 : 2003). If we fail to renew or maintain the certification or approval, our fire resistant door sets will not be allowed to be sold, which will then materially and adversely affect our Group's financial performance.

(e) Interruptions in our business operations

Our manufacturing activities are heavily dependent on our machineries and equipment such as shearing, stamping, CNC bending, wood cutting, and wood press machines, amongst others. These machineries, may on occasions, be out of service or breakdown as a result of unanticipated maintenance required, and failures may affect our production operations. There has been no major breakdown that materially disrupts our manufacturing processes in the past as we have more than 1 unit of machine for each manufacturing process. We also conduct routine maintenance schedule for our machines. Further, our manufacturing plant is also subject to unexpected events such as electricity outage, floods and fires.

Any prolonged interruptions in our business operations due to the above, will result in delays in our production schedules and timely delivery of our products to our customers, which will then materially and adversely affect our financial performance.

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11.2.2 Review of results of operations

(i) Revenue

Our revenue for the financial years under review was derived from the sale of products under our manufacturing and trading segments. Our sales are derived mainly locally and denominated in RM.

Analysis of revenue by business segment

	Audited						Unaudited		Audited	
	FYE 2017		FYE 2018		FYE 2019		FPE 2019		FPE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Manufacturing										
Metal door frames	21,837	61.6	22,472	56.4	24,002	54.4	18,374	55.2	14,251	47.5
Fire resistant door sets	1,360	3.8	8,330	20.9	12,543	28.5	9,139	27.5	9,940	33.2
Metal door sets	707	2.0	55	0.2	236	0.5	68	0.2	173	0.6
Sub-total	**23,904**	**67.4**	**30,857**	**77.5**	**36,781**	**83.4**	**27,581**	**82.9**	**24,364**	**81.3**
Trading										
Fire resistant door sets	8,061	22.7	4,243	10.7	(1)-	-	-	-	-	-
Ironmongery	470	1.3	1,211	3.0	2,936	6.7	2,329	7.0	2,794	9.3
Wooden doors	3,059	8.6	3,523	8.8	4,372	9.9	3,355	10.1	2,819	9.4
Sub-total	**11,590**	**32.6**	**8,977**	**22.5**	**7,308**	**16.6**	**5,684**	**17.1**	**5,613**	**18.7**
Total	**35,494**	**100.0**	**39,834**	**100.0**	**44,089**	**100.0**	**33,265**	**100.0**	**29,977**	**100.0**

Note:

(1) We discontinued the trading of 3rd party fire resistant door sets in the FYE 2019 as we align our focus to market fire resistant door sets manufactured under our own brand, DUROE®. We obtained the certification and approval from SIRIM and BOMBA, respectively to produce and sell our DUROE® brand of fire resistant door sets during the FYE 2017.

Financial commentaries

Comparison between FYE 2017 and FYE 2018

Our revenue increased by RM4.34 million (12.2%) to RM39.83 million for the FYE 2018 (FYE 2017: RM35.49 million) due mainly to the increase in revenue generated from our manufacturing segment.

Manufacturing

Revenue from our manufacturing segment increased by RM6.95 million (29.1%) to RM30.86 million for the FYE 2018 (FYE 2017: RM23.90 million). Such increase was mainly due to the higher contribution from the sales of our own manufactured DUROE® brand of fire resistant door sets (which are sold as a set together with our metal door frames) by RM6.97 million (512.5%). In the FYE 2018, we sold a total of 19,612 fire resistant door sets (of which 13,000 units was our manufactured DUROE® brand of fire resistant door sets while 6,612 units was traded fire resistant door sets) (FYE 2017: 12,915 fire resistant door sets sold; 2,296 units was our manufactured DUROE® fire resistant door sets: 10,619 units was traded fire resistant door sets). The significant increase in revenue for our manufactured fire resistant door sets was due to cross marketing efforts in promoting our newly launched DUROE® brand of fire resistant door sets which commenced commercial production in the 2nd half of the FYE 2017 alongside with the decrease in sales of 3rd party resistant door sets.

Revenue for our metal door frames recorded an increase by RM0.64 million (2.9%) for the FYE 2018 despite a lower quantity of metal door frames sold (FYE 2018: 308,958 units as compared to FYE 2017: 324,430 units). The slight increase in revenue was due to our increase in average selling price per unit for our metal door frames as a result of an increase in the average steel coil prices (largely determined by the global market prices of steel products) where the average price for electro-galvanised steel coil increased from RM3,068 per MT in the FYE 2017 to RM3,313 per MT in the FYE 2018 which was offset by the decrease in the quantities sold.

Revenue for our metal door sets decreased by RM0.65 million (92.2%) from RM0.71 million for the FYE 2017 to RM0.06 million for the FYE 2018 due to lower quantities of metal door sets sold in the FYE 2018 as compared to the FYE 2017. The higher volume of quantity sold in the FYE 2017 was due to a one-off export order secured from a customer in Indonesia.

Trading

Revenue from our trading segment decreased by RM2.61 million (22.5%) to RM8.98 million in the FYE 2018 (FYE 2017: RM11.59 million). Such decrease was mainly due to the decrease in sales of 3rd party fire resistant door sets by RM3.82 million (47.4%). We sold 6,612 3rd party fire resistant door sets in the FYE 2018 as compared to 10,619 in the FYE 2017. The decrease in the sales of 3rd party fire resistant door sets was in tandem with our shift in strategy towards promoting and selling our own manufactured DUROE® brand of fire resistant door sets to decrease our dependency on sales of 3rd party resistant door sets.

The decrease in revenue from sales of 3rd party resistant door sets was partly offset by the increase in sales of ironmongery by RM0.74 million (157.7%) and wooden doors by RM0.46 million (15.2%). We sold 58,249 ironmongery and 33,386 wooden doors in the FYE 2018 as compared to 24,208 ironmongery and 28,447 wooden doors in the FYE 2017.

Comparison between FYE 2018 and FYE 2019

Our revenue increased by RM4.26 million (10.7%) to RM44.09 million for the FYE 2019 (FYE 2018: RM39.83 million) due to contribution from our manufacturing segment.

Manufacturing

Revenue from our manufacturing segment increased by RM5.92 million (19.2%) to RM36.78 million for the FYE 2019 (FYE 2018: RM30.86 million). Such increase was mainly due to the higher contribution from our sales of our own DUROE® brand of fire resistant door sets by RM4.21 million (50.6%). During the FYE 2019, we continued to promote our DUROE® brand of fire resistant door sets as we discontinued the trading of 3rd party fire resistant door sets. We sold a total of 17,265 fire resistant door sets (comprising entirely of our manufactured DUROE® brand of fire resistant door sets) in the FYE 2019 as compared to 13,000 fire resistant door sets sold in the FYE 2018.

Revenue for our metal door frames recorded an increase of RM1.53 million (6.8%) for the FYE 2019 (FYE 2018: RM22.47 million) despite a lower quantity of metal door frames sold (FYE 2019: 307,737 units as compared to FYE 2018: 308,958 units). The increase in revenue was due to higher material specifications demanded by notable property developers such as Eco World, Gamuda, Aset Kayamas, Matrix Concept, IJM Land, LBS Bina, Mah Sing and Sime Darby. The higher material specification uses Zincalume® as compared to electro-galvanised iron which commands a higher average selling price per unit.

Revenue for our metal door sets increased marginally by RM0.18 million (329.1%) to RM0.24 million in the FYE 2019 (FYE 2018: RM0.06 million) due to higher demand from the domestic market.

Trading

Revenue from our trading segment decreased by RM1.67 million (18.6%) to RM7.31 million in the FYE 2019 (FYE 2018: RM8.98 million) due mainly to the discontinuance of distribution activities for 3rd party fire resistant door sets. Accordingly, our revenue for 3rd party fire resistant door sets decreased by RM4.24 million (100.0%) during the FYE 2019 to nil (FYE 2018: RM4.24 million). This was in line with nil quantity sold in the FYE 2019 as compared to 6,612 units sold in the FYE 2018.

Revenue for our ironmongery and wooden doors increased by RM1.73 million (142.4%) and RM0.85 million (24.1%) respectively as we secured higher sales orders for our ironmongery and wooden doors from both existing and new customers. We sold 145,107 ironmongery and 41,009 wooden doors in the FYE 2019 as compared to 58,249 ironmongery and 33,386 wooden doors in the FYE 2018.

Comparison between FPE 2019 and FPE 2020

Our revenue decreased by RM3.29 million (9.9%) to RM29.98 million for the FPE 2020 (FPE 2019: RM33.27 million) for both our manufacturing and trading segments due to the sudden suspension of businesses arising from the government's imposition of the Movement Control Order nationwide, which had impacted our business.

Manufacturing

Revenue from our manufacturing segment decreased by RM3.22 million (11.7%) to RM24.36 million for the FPE 2020 (FPE 2019: RM27.58 million) due mainly to the decrease in the quantity of metal door frames sold where the scheduled deliveries of unfulfilled purchase orders were affected by the suspension of businesses during the Movement Control Order. We sold 171,178 metal door frames in the FPE 2020 as compared to 220,750 metal door frames in the FPE 2019.

Revenue from our fire resistant door sets recorded an increase by RM0.80 million (8.8%) to RM9.94 million for the FPE 2020 (FPE 2019: RM9.14 million) due to a higher quantity of fire resistant door sets sold (FPE 2020: 14,670 units as compared to FPE 2019: 12,982 units). The slight increase in revenue was due to the increasing demand for our manufactured DUROE® brand of fire resistant door sets.

Revenue from our metal door sets increased by RM0.11 million (154.4%) to RM0.17 million in the FPE 2020 (FPE 2019: RM0.07 million) due to higher demand from the domestic market where we sold 131 units in the FPE 2020 (FPE 2019: 37 units).

Trading

Revenue from our trading segment decreased by RM0.07 million (1.2%) to RM5.61 million in the FPE 2020 (FPE 2019: RM5.68 million) due to the lower contribution from the sales of wooden doors which was partially offset by the higher sales of ironmongery.

Revenue from our wooden doors decreased by RM0.54 million (16.0%) to RM2.82 million in the FPE 2020 (FPE 2019: RM3.36 million) due mainly to a lower quantity of wooden doors sold in the FPE 2020. We sold 24,525 wooden doors in the FPE 2020 as compared to 31,598 wooden doors in the FPE 2019. Our revenue from ironmongery increased by RM0.47 million (20.0%) to RM2.79 million in the FPE 2020 (FPE 2019: RM2.33 million). This was due to a higher volume of 139,787 ironmongeries sold in the FPE 2020 as compared to 112,694 sold in the FPE 2019.

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(ii) Cost of sales

Analysis of cost of sales by business segment and their respective cost components

	Audited						Unaudited		Audited	
	FYE 2017		FYE 2018		FYE 2019		FPE 2019		FPE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Manufacturing										
Metal door frames										
• Raw materials										
- Steel coils	12,587	47.2	13,626	45.5	11,922	40.4	9,501	42.0	6,958	34.2
- Ironmongery	1,900	7.1	1,998	6.7	1,900	6.5	1,205	5.3	955	4.7
- Other raw materials[1]	94	0.4	135	0.4	175	0.6	96	0.4	187	0.9
	14,581	*54.7*	*15,759*	*52.6*	*13,997*	*47.5*	*10,802*	*47.7*	*8,100*	*39.8*
• Labour	1,685	6.3	1,358	4.5	1,789	6.1	1,343	5.9	1,136	5.6
• Production overheads	270	1.0	221	0.7	485	1.6	360	1.6	400	2.0
• Logistics	292	1.1	376	1.3	365	1.2	177	0.8	148	0.7
Sub-total	**16,828**	**63.1**	**17,714**	**59.1**	**16,636**	**56.4**	**12,682**	**56.0**	**9,784**	**48.1**
Fire resistant door sets										
• Raw materials										
- Steel coils	297	1.1	1,934	6.5	2,237	7.6	2,197	9.7	2,157	10.6
- Fire resistant boards	160	0.6	766	2.5	2,242	7.6	693	3.1	902	4.4
- Ironmongery	152	0.6	830	2.8	770	2.6	1,127	5.0	1,299	6.4
- Insulation materials, fire seal, glue and others	64	0.2	595	2.0	737	2.5	691	3.1	823	4.0
- Plywood	82	0.3	543	1.8	669	2.3	616	2.7	602	3.0
	755	*2.8*	*4,668*	*15.6*	*6,655*	*22.6*	*5,324*	*23.6*	*5,783*	*28.4*
• Labour	105	0.4	566	1.9	933	3.2	667	2.9	788	3.9
• Production overheads	81	0.3	116	0.4	283	1.0	166	0.7	241	1.2
• Logistics	91	0.4	196	0.7	194	0.7	88	0.4	108	0.5
Sub-total	**1,032**	**3.9**	**5,546**	**18.6**	**8,065**	**27.5**	**6,245**	**27.6**	**6,920**	**34.0**

11. FINANCIAL INFORMATION *(Cont'd)*

	Audited						Unaudited		Audited	
	FYE 2017		FYE 2018		FYE 2019		FPE 2019		FPE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Metal door sets										
• Raw materials										
- Steel coils	380	1.4	39	0.1	125	0.4	38	0.2	110	0.6
- Ironmongery	26	0.1	3	~	6	~	2	~	7	~
	406	*1.5*	*42*	*0.1*	*131*	*0.4*	*40*	*0.2*	*117*	*0.6*
• Labour	55	0.2	3	~	13	~	4	~	8	~
• Production overheads	4	~	*	~	3	~	1	~	3	~
• Logistics	4	~	*	~	1	~	*	~	1	~
Sub-total	**469**	**1.7**	**45**	**0.1**	**148**	**0.4**	**45**	**0.2**	**129**	**0.6**
Manufacturing sub-total	**18,329**	**68.7**	**23,305**	**77.8**	**24,849**	**84.3**	**18,972**	**83.8**	**16,833**	**82.7**
Trading										
Fire resistant door sets	5,917	22.2	3,290	11.0	-	-	-	-	-	-
Ironmongery										
• Purchases	226	0.9	557	1.8	1,340	4.5	1,129	5.0	1,370	6.7
• Logistic	2	~	20	0.1	46	0.2	31	0.1	18	0.1
Wooden doors	2,177	8.2	2,785	9.3	3,240	11.0	2,516	11.1	2,128	10.5
Trading sub-total	**8,322**	**31.3**	**6,652**	**22.2**	**4,626**	**15.7**	**3,676**	**16.2**	**3,516**	**17.3**
Total cost of sales	**26,651**	**100.0**	**29,957**	**100.0**	**29,475**	**100.0**	**22,648**	**100.0**	**20,349**	**100.0**

Notes:

(1) Other raw materials cost for metal door frames comprise mainly of consumables items such as silicon and paint which relate to the production cost.

* Amount less than RM1,000.

~ Less than 0.1%.

Financial commentaries

Comparison between FYE 2017 and FYE 2018

Our overall cost of sales increased by RM3.31 million (12.4%) to RM29.96 million in the FYE 2018 (FYE 2017: RM26.65 million) due mainly to the increase in manufacturing cost for the production of our own DUROE® brand of fire resistant door sets and metal door frames which were in line with the increase in the sales of our DUROE® brand of fire resistant door sets and metal door frames.

Manufacturing

The increase in our manufacturing cost by RM4.98 million (27.1%) to RM23.31 million for the FYE 2018 (FYE 2017: RM18.33 million) was mainly driven by the increase in cost of sales of our own DUROE® brand of fire resistant door sets in tandem with our shift in strategy towards manufacturing our own brand of fire resistant door sets. The increase in cost of sales of our fire resistant door sets was in line with the increase in the quantity of fire resistant door sets manufactured during the financial year (FYE 2018: 13,000 units as compared to FYE 2017: 2,296 units) as we decreased the sales of 3rd party resistant door sets.

We also registered an increase by 1,283 units of 2 hours FRD fire resistant door sets to 1,360 units of 2 hours FRD fire resistant door sets (FYE 2017: 77 units). 2 hours FRD fire resistant door sets incur higher costs due to premium melamine fire resistant boards and steel coils of thicker gauge for the metal door frames were used to withstand 2 hours FRD.

Cost of sales for our metal door frames increased by RM0.89 million (5.3%) in the FYE 2018 to RM17.71 million (FYE 2017: RM16.83 million) mainly due to the increase in cost of sales for steel coils. The cost of sales for steel coils increased by RM1.04 million (8.3%) in the FYE 2018 as compared to the FYE 2017. The cost of steel coil is largely determined by the market prices of steel products which are subject to amongst others, market supply and demand conditions of steel in the global market, prices of raw materials for the production of steel (i.e. coal and iron) and the prevailing energy costs.

There was an increase in the prices for steel products in the FYE 2018 which resulted in a higher cost for steel coils. The cost of sales for our metal door frames was however substantially offset by the decrease in labour cost by RM0.33 million (19.4%) in the FYE 2018 as compared to the FYE 2017. As sales for our DUROE® brand of fire resistant door sets began to gain traction in the market in the FYE 2018, we allocated part of our existing production workers used for the production of metal door frames to produce our DUROE® brand of fire resistant door sets which commanded better margins. We began to outsource some manual work which did not require skilled workers for the manufacturing of metal door frames to subcontractors during the FYE 2018. This enabled our production workers to focus mainly on complex tasks to increase operational efficiency, leading to lower labour costs for the manufacturing of metal door frames. The lower labour costs was also partially due to a lower volume of metal door frames manufactured in the FYE 2018. The quantity of metal door frames manufactured decreased by 15,472 units (4.8%) as we allocated part of our resources to manufacture our DUROE® brand of fire resistant door sets which carries a higher margin.

Cost of sales for our metal door sets decreased by RM0.42 million (90.4%) in the FYE 2018 due mainly to a lower quantity of metal door sets manufactured during the year as compared to the one-off export order in the FYE 2017.

Trading

The decrease in cost of sales for our trading segment was mainly driven by the decrease in procurement for 3rd party fire resistant door sets, in line with our shift in strategy towards manufacturing our own DUROE® brand of fire resistant door sets. Our cost of sales for 3rd party fire resistant door sets decreased by RM2.63 million (44.4%) in line with the decrease in our sales volume by 4,007 units (37.7%).

The decrease in cost of sales for our trading segment was partially offset by the higher contribution in cost of sales from ironmongery and wooden doors which were in line with the increase in the volume of ironmongery and wooden doors sold.

Comparison between FYE 2018 and FYE 2019

Our overall cost of sales decreased by RM0.48 million (1.6%) to RM29.48 million in the FYE 2019 (FYE 2018: RM29.96 million) mainly due to lower cost of sales from manufacturing of our metal door frames and our trading segment.

Manufacturing

The increase in our manufacturing cost by RM1.54 million (6.6%) to RM24.85 million in the FYE 2019 (FYE 2018: RM23.31 million) was mainly driven by the increase in cost of sales of our own DUROE® brand of fire resistant door sets. The increase in cost of sales of our fire resistant door sets was due to the increase by 4,265 units of fire resistant door sets to 17,265 units manufactured in the FYE 2019 (FYE 2018: 13,000 units). In addition, we also registered an increase to 1,893 units of 2 hours FRD fire resistant door sets in FYE 2019 as compared to 1,360 units of 2 hours FRD fire resistant door sets in the FYE 2018.

Cost of sales for our metal door frames decreased by RM1.08 million (6.1%) in the FYE 2019 as compared to the FYE 2018 due mainly to lower steel coil cost. Cost of sales for steel coil decreased by RM1.70 million (12.5%) in the FYE 2019 as compared to the FYE 2018 resulting in lower procurement costs for steel coil. The average price for electro-galvanised steel coil decreased from RM3,313 per MT in the FYE 2018 to RM3,080 per MT in the FYE 2019.

Cost of sales for our metal door sets increased by RM0.10 million (228.9%) in the FYE 2019 as compared to the FYE 2018 due to higher demand from the domestic market.

Trading

The decrease in cost of sales for our trading segment was mainly due to the decrease in procurement for 3rd party fire resistant door sets as we ceased distributing 3rd party fire resistant door sets in the FYE 2019.

The decrease in cost of sales for our trading segment was partially offset by the higher contribution in cost of sales from ironmongery and wooden doors which were in line with the increase in the volume of ironmongery and wooden doors sold. The cost of sales for ironmongery and wooden doors increased by RM0.81 million (140.2%) and RM0.46 million (16.3%) respectively in the FYE 2019 as compared to the FYE 2018.

Comparison between FPE 2019 and FPE 2020

Our overall cost of sales decreased by RM2.30 million (10.2%) to RM20.35 million in the FPE 2020 (FPE 2019: RM22.65 million) mainly due to lower cost of sales from manufacturing of our metal door frames and our trading of wooden doors.

Manufacturing

The decrease in our manufacturing cost by RM2.14 million (11.3%) to RM16.83 million in the FPE 2020 (FPE 2019: RM18.97 million) was mainly due to the decrease in our cost of sales for metal door frames. The decrease in cost of sales of our metal door frames by RM2.90 million (22.9%) to RM9.78 million in the FPE 2020 as compared to RM12.68 million in the FPE 2019 was due to the decrease in the quantity of metal door frames sold (FPE 2020: 171,178 metal door frames as compared to FPE 2019: 220,750 metal door frames) as the scheduled deliveries of unfulfilled purchase orders were affected by the suspension of businesses during the Movement Control Order.

Cost of sales for our DUROE® brand of fire resistant door sets increased by RM0.68 million (10.8%) to RM6.92 million in the FPE 2020 (FPE 2019: RM6.25 million) was mainly due to the increase by 1,688 units of fire resistant door sets to 14,670 units manufactured in the FPE 2020 (FPE 2019: 12,982 units).

Cost of sales for our metal door sets increased by RM0.08 million (186.7%) to RM0.13 million in the FPE 2020 (FPE 2019: RM0.05 million) due to a higher quantity of 131 metal door sets manufactured during the FPE 2020 as compared to 37 metal door sets manufactured in the FPE 2019.

Trading

The slight decrease in our trading segment by RM0.16 million (4.4%) to RM3.52 million in the FPE 2020 (FPE 2019: RM3.68 million) was due to the lower contribution in cost of sales from wooden doors after offsetting the higher cost of sales from ironmongery.

Our cost of sales of wooden doors reduced by RM0.39 million (15.4%) to RM2.13 million in the FPE 2020 (FPE 2019: RM2.52 million) was due to a lower volume of wooden doors sold in the FPE 2020. Our cost of sales for ironmongery increased by RM0.23 million (19.7%) to RM1.39 million in the FPE 2020 (FPE 2019: RM1.16 million), which was in line with the increase in the volume of ironmongery sold in the FPE 2020 as compared to the FPE 2019.

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(iii) GP and GP margin

Analysis of GP and GP margin by business segments

	Audited						Unaudited		Audited	
	FYE 2017		FYE 2018		FYE 2019		FPE 2019		FPE 2020	
	GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Metal door frames	5,009	22.9	4,758	21.2	7,366	30.7	5,692	31.0	4,467	31.3
Fire resistant door sets	328	24.1	2,784	33.4	4,478	35.7	2,894	31.7	3,020	30.4
Metal door sets	238	33.7	10	18.2	88	37.3	23	33.8	44	25.4
Manufacturing	**5,575**	**23.3**	**7,552**	**24.5**	**11,932**	**32.4**	**8,609**	**31.2**	**7,531**	**30.9**
Fire resistant door sets	2,144	26.6	953	22.5	-	-	-	-	-	-
Ironmongery	242	51.5	634	52.4	1,550	52.8	1,169	50.2	1,406	50.3
Wooden doors	882	28.8	738	20.9	1,132	25.9	839	25.0	691	24.5
Trading	**3,268**	**28.2**	**2,325**	**25.9**	**2,682**	**36.7**	**2,008**	**35.3**	**2,097**	**37.4**
Total GP/Overall GP margin	**8,843**	**24.9**	**9,877**	**24.8**	**14,614**	**33.1**	**10,617**	**31.9**	**9,628**	**32.1**

Financial commentaries

Comparison between FYE 2017 and FYE 2018

Our overall GP increased by RM1.03 million (11.7%) from RM8.84 million in the FYE 2017 to RM9.88 million in the FYE 2018 due mainly to the increase in revenue contribution from the manufacturing of our own DUROE® brand of fire resistant door sets. Our overall GP margin was approximately the same.

Manufacturing

GP contribution from our manufacturing segment increased by RM1.98 million (35.5%) to RM7.55 million in the FYE 2018 (FYE 2017: RM5.58 million) was mainly contributed by the manufacturing of our own DUROE® brand of fire resistant door sets. GP margin for our manufactured DUROE® brand of fire resistant door sets increased to 33.4% in the FYE 2018 (FYE 2017: 24.1%) due mainly to the increase in average selling price per unit by 8.2% arising from higher demand for 2 hours FRD fire resistant door sets. We sold 1,360 units of 2 hours FRD fire resistant door sets in the FYE 2018 as compared to 77 units in the FYE 2017.

GP contribution from our metal door frames decreased by RM0.25 million (5.0%) in the FYE 2018 as compared to the FYE 2017. The decrease was mainly due to the increase in our average cost of sales per unit by approximately 10.5%. The increase in our average cost of sales per unit was mainly due to the increase in steel coil cost per unit (primary raw material for our metal door frames) by 13.7%. The increase in cost of sales was partially offset by the increase in our average selling price resulting in our metal door frames to record a slightly lower GP margin of 21.2% in the FYE 2018 as compared to 22.9% in the FYE 2017.

GP contribution from our metal door sets decreased by RM0.23 million (95.8%) in the FYE 2018 as compared to FYE 2017 due to lower volume of sales. As revenue for our metal door sets for the FYE 2017 comprised mainly of one-off export sales to Indonesia, it commanded a better selling price, hence a higher GP margin of 33.7% in FYE 2017 as compared to the GP margin of 18.2% in the FYE 2018.

Trading

GP contribution from our trading segment decreased by RM0.94 million (28.9%) to RM2.33 million in the FYE 2018 (FYE 2017: RM3.27 million) was mainly due to the lower volume of trading sales for 3rd party fire resistant door sets.

GP contribution from trading of 3rd party fire resistant door sets decreased by RM1.19 million (55.6%) in the FYE 2018 as compared to the FYE 2017 due to lower volume of sales. The decrease was due to our Group promoting our own manufactured DUROE® brand of fire resistant door sets to our customers. The lower demand for 3rd party fire resistant door sets resulted in lower selling prices, and this in turn led to a lower GP margin of 22.5% in the FYE 2018 (FYE 2017: 26.6%).

GP contribution from ironmongery increased by RM0.39 million (162.0%) due to higher sales volume. GP margin was relatively stable at 51.5% and 52.4% recorded in the FYEs 2017 and 2018 respectively.

GP contribution from wooden doors decreased by RM0.14 million (16.3%) in the FYE 2018 as compared to the FYE 2017. GP margin decreased to 20.9% in the FYE 2018 (FYE 2017: 28.8%). The lower GP and GP margin were due to lower average selling prices per unit by approximately 1.9% arising from lower pricing for one large competitive project secured during the FYE 2018.

Comparison between FYE 2018 and FYE 2019

Our overall GP increased by RM4.74 million (48.0%) to RM14.61 million in the FYE 2019 (FYE 2018: RM9.88 million) was mainly due to an overall increase in our revenue contribution from our manufacturing segment. Our overall GP margin increased from 24.8% to 33.1% in the FYE 2019 due mainly to higher GP margin contribution from our manufacturing segment arising from higher average selling prices per unit for our metal door frames and DUROE® brand of fire resistant door sets.

Manufacturing

GP contribution from our manufacturing segment increased by RM4.38 million (58.0%) to RM11.93 million in the FYE 2019 (FYE 2018: RM7.55 million) was mainly due to the increase in both revenue and GP margin contribution by our metal door frames and DUROE® brand of fire resistant door sets.

GP contribution from our metal door frames increased by RM2.61 million (54.8%) in the FYE 2019 as compared to the FYE 2018. The increase was due to higher average selling price per unit by 7.2% coupled with lower cost of sales per unit by 5.7% in the FYE 2019. The higher average selling price per unit was due to higher material specification which uses Zincalume® demanded by notable property developers as compared to electro-galvanised iron. Accordingly, GP margin for our metal door frames increased from 21.2% in the FYE 2018 to 30.7% in the FYE 2019.

GP contribution from our manufactured DUROE® brand of fire resistant door sets increased by RM1.69 million (60.8%) in the FYE 2019 as compared to FYE 2018. The increase was due to higher average selling price per unit by 13.4% in the FYE 2019 arising from the growing demand for higher grade 2 hours FRD fire resistant door sets which commands a better margin than the 1 hour FRD fire resistant door sets. Accordingly, our GP margin for our manufactured DUROE® brand of fire resistant door sets increased from 33.4% in the FYE 2018 to 35.7% in the FYE 2019.

GP contribution from our metal door sets increased by RM0.08 million (780.0%) in the FYE 2019 as compared to the FYE 2018. The increase was attributed to a higher sales volume and GP margin. GP margin increased to 37.3% in the FYE 2019 (FYE 2018: 18.2%) due to higher average selling price per unit by 23.2% arising from better sales mix with a higher number of double leaf metal door sets demanded in the FYE 2019 which commands a better margin than single leaf metal door sets as compared to the FYE 2018.

Trading

GP contribution from our trading segment increased by RM0.36 million (15.4%) to RM2.68 million in the FYE 2019 (FYE 2018: RM2.33 million) due to the increase in revenue contribution from both our ironmongery and wooden doors.

GP contribution from ironmongery increased by RM0.92 million (144.5%) in the FYE 2019 as compared to FYE 2018 due to a higher sales volume. GP margin maintained at a relatively stable margin of 52.4% in the FYE 2018 and 52.8% in the FYE 2019.

GP contribution from wooden doors increased by RM0.39 million (53.4%) in the FYE 2019 as compared to the FYE 2018 due to higher sales volume. GP margin increased to 25.9% in the FYE 2019 (FYE 2018: 20.9%) as we increased our average selling prices per unit for our wooden doors by approximately 1.0%.

Comparison between FPE 2019 and FPE 2020

Our overall GP reduced by RM0.99 million (9.3%) to RM9.63 million in the FPE 2020 (FPE 2019: RM10.62 million) was mainly due to the overall decrease in our revenue contribution from both our manufacturing and trading segments due to the sudden suspension of businesses arising from the government's imposition of the Movement Control Order nationwide in the FPE 2020. Our overall GP margin remained relatively stable at 31.9% and 32.1% recorded for the FPEs 2019 and 2020, respectively.

Manufacturing

GP contribution from our manufacturing segment decreased by RM1.08 million (12.5%) to RM7.53 million in the FPE 2020 (FPE 2019: RM8.61 million) was mainly due to the decrease in revenue contribution from our metal door frames.

GP contribution from our metal door frames decreased by RM1.23 million (21.5%) in the FPE 2020 as compared to the FPE 2019. The decrease was due to the lower sales volume due to the scheduled deliveries of unfulfilled purchase orders which were affected by the suspension of businesses during the Movement Control Order. GP margin for our metal door frames increased marginally to 31.3% in the FPE 2020 as compared to 31.0% in the FPE 2019 due mainly to lower cost of sales per unit by 0.5% in the FPE 2020 which was partially offset by the higher labour and production overhead per unit. The higher labour and production overhead per unit was mainly due to fixed expenses incurred during the Movement Control Order. The lower cost of sales per unit was mainly due to lower procurement costs for steel coil arising from lower average price for electro-galvanised steel coil. The average price for electro-galvanised steel coil decreased from RM3,086 per MT in the FPE 2019 to RM2,851 per MT in the FPE 2020.

GP contribution from our fire resistant door sets increased by RM0.13 million (4.4%) in the FPE 2020 as compared to the FPE 2019. Despite a higher quantity of fire resistant door sets sold in the FPE 2020, the marginal increase was due to lower average selling price per unit in the FPE 2020. GP margin from our manufactured DUROE® brand of fire resistant door sets decreased from 31.7% in the FPE 2019 to 30.4% in the FPE 2020. The decrease was due to lower average selling price by 3.8% in the FPE 2020 arising mainly from competitive pricing for large purchase orders supplied to some notable property development projects.

GP contribution from our metal door sets increased by RM0.02 million (91.3%) in the FPE 2020 as compared to the FPE 2019. The increase was attributed to higher sales volume of 131 units in the FPE 2020 (FPE 2019: 37 units). GP margin for our metal door sets decreased from 33.8% in the FPE 2019 to 25.4% in the FPE 2020 due mainly to higher demand for single leaf metal door sets in the FPE 2020 which commands a lower margin as compared to double leaf metal door sets.

Trading

GP contribution from our trading segment increased by RM0.09 million (4.4%) to RM2.10 million in the FPE 2020 (FPE 2019: RM2.01 million) mainly due to the increase in revenue contribution from our ironmongery.

GP contribution from ironmongery increased by RM0.24 million (20.3%) to RM1.41 million in the FPE 2020 (FPE 2019: RM1.17 million) due to higher sales volume in the FPE 2020. GP margin was relatively stable at 50.2% and 50.3% recorded in the FPEs 2019 and 2020, respectively.

GP contribution from wooden doors decreased by RM0.15 million (17.6%) to RM0.69 million in the FPE 2020 (FPE 2019: RM0.84 million) due to lower sales volume in the FPE 2020. GP margin for wooden doors was relatively stable at 25.0% and 24.5% for the FPEs 2019 and 2020, respectively.

(iv) Other income

The breakdown of our other income for the FYEs 2017 to 2019, FPEs 2019 and 2020 is as follows:

	Audited						Unaudited		Audited	
	FYE 2017		FYE 2018		FYE 2019		FPE 2019		FPE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Rental income[(1)]	156	80.0	156	37.2	155	24.9	117	70.0	-	-
Bad debts recovered	-	-	-	-	5	0.8	5	3.0	-	-
Interest income	9	4.6	13	3.1	21	3.4	15	9.0	49	30.3
Gain on disposal of PPE	30	15.4	-	-	-	-	-	-	-	-
Gain on fair value adjustment on investment property	-	-	250	59.7	400	64.6	-	-	-	-
Reversal of impairment loss	-	-	-	-	-	-	-	-	31	19.1
Rental of lorry	-	-	-	-	23	3.7	18	10.8	18	11.1
Rebate from supplier	-	-	-	-	15	2.6	12	7.2	64	39.5
Total	**195**	**100.0**	**419**	**100.0**	**619**	**100.0**	**167**	**100.0**	**162**	**100.0**

Note:

(1) Rental income was from the piece of freehold agriculture land held for investment which was tenanted out. The freehold agriculture land was subsequently distributed to the Econframe Marketing Vendors as dividend-in-specie in the FYE 2019.

Financial commentaries

Comparison between FYE 2017 and FYE 2018

Other income increased by RM0.22 million (114.9%) to RM0.42 million in the FYE 2018 (FYE 2017: RM0.20 million). Such increase was mainly due to the fair value gain of RM0.25 million recognised on a piece of freehold agriculture land held for investment.

Comparison between FYE 2018 and FYE 2019

Other income for the FYE 2019 relates mainly to the fair value gain of RM0.15 million recognised on a piece of freehold agriculture land held for investment. During the FYE 2019, the said land was distributed to the Econframe Marketing Vendors as dividend-in-specie.

Comparison between FPE 2019 and FPE 2020

Other income decreased by RM0.01 million (3.0%) to RM0.16 million in the FPE 2020 (FPE 2019: RM0.17 million), mainly due to the discontinuation of rental income from the piece of freehold agriculture land held for investment which was distributed to the Econframe Marketing Vendors as dividend-in-specie in the second half of the FYE 2019.

(v) Administrative expenses

The breakdown of our administrative expenses for the FYEs 2017 to 2019, FPEs 2019 and 2020 is as follows:

	Audited						**Unaudited**		**Audited**	
	FYE 2017		**FYE 2018**		**FYE 2019**		**FPE 2019**		**FPE 2020**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Staff costs	1,440	42.9	1,666	66.8	1,852	56.3	1,371	55.6	1,821	55.6
Depreciation	315	9.4	265	10.6	297	9.0	203	8.3	211	6.4
Loss on fair value adjustment on investment property	1,050	31.3	-	-	-	-	-	-	-	-
Listing expenses	-	-	-	-	-	-	-	-	487	14.9
Realised loss on foreign exchange	-	-	-	-	-	-	-	-	91	2.8
Others[1]	552	16.4	565	22.6	1,141	34.7	890	36.1	666	20.3
Total	**3,357**	**100.00**	**2,496**	**100.00**	**3,290**	**100.00**	**2,464**	**100.00**	**3,276**	**100.00**

Note:

(1) Comprises audit and professional fees, utilities and telephone costs, bank charges, insurance, rental paid, printing and stationery, bad debts written off and provision for doubtful debts.

Financial commentaries

Comparison between FYE 2017 and FYE 2018

Administrative expenses reduced by RM0.86 million (25.6%) to RM2.50 million in the FYE 2018 (FYE 2017: RM3.36 million). Such decrease was largely due to the loss on fair value on a piece of freehold agriculture land held for investment recognised in the FYE 2017. The decrease was offset by the increase in staff cost by RM0.23 million due to the recruitment of 6 additional personnel in the FYE 2018 comprising 3 accounts and administrative staff and 3 operations management staff to cope with the cross marketing of our new product, i.e. the DUROE® brand of fire resistant door sets. The 6 additional personnel were recruited throughout the FYE 2018 where we recruited 1 personnel in each quarter for the first 3 quarters and 3 personnel in the 4th quarter of the FYE 2018.

Comparison between FYE 2018 and FYE 2019

Administrative expenses increased by RM0.79 million (31.8%) to RM3.29 million in the FYE 2019 (FYE 2018: RM2.50 million). Such increase was mainly due to the:

(a) increase in staff cost by RM0.19 million due to the recruitment of 13 additional personnel comprising 1 Chief Financial Officer, 4 accounts and administrative staff, 3 sales and marketing staff, and 5 operations management[(1)] staff to cater for further business expansion. The 13 additional personnel were recruited throughout the FYE 2019 where we recruited 3 personnel in the 1st quarter, 3 personnel in the 2nd quarter, 2 personnel recruited in the 3rd quarter and 5 personnel were recruited in the 4th quarter of the FYE 2019. The increase in staff cost for the FYE 2019 was lower than in the FYE 2018 due to the resignations of 7 senior personnel during the year which were replaced by junior personnel and the majority of the additional personnel (7 out of 13) recruited joined in the second half of the FYE 2019; and

(b) increase in other costs by RM0.58 million due mainly to increase in professional fees[(2)] (RM0.25 million), donations (RM0.06 million), insurance (RM0.05 million), upkeep of motor vehicles and office equipment (RM0.04 million).

Notes:

(1) Operations management staff refers to staff who is involved in procurement, logistics and operation support activities.

(2)

	RM'000
Comprises the following:	
Drawing fee & fees payable to MPK in respect of the Structure Permit	129.38
Accounting fee	58.30
Tax consulting fee	20.44
Website redesign fee	11.25
Valuation fee	13.80
ISO audit fee	8.78
Subscription fee for company credit searches	4.83
Legal fee	4.31
Total	**251.09**

Comparison between FPE 2019 and FPE 2020

Administrative expenses increased by RM0.81 million (33.0%) to RM3.28 million in the FPE 2020 (FPE 2019: RM2.46 million). Such increase was mainly due to the listing expenditure of RM0.49 million expensed out and increase in staff cost by RM0.45 million to cater for further business expansion. In the FPE 2020, we accounted cost for 11 additional personnel as compared to 8 additional personnel in the FPE 2019. The 11 additional personnel comprised 6 additional personnel recruited during the FPE 2020 as well as 5 personnel recruited in the 4th quarter of the FYE 2019. Additionally, the increase in staff cost was also attributed to the increase in directors' fees by RM0.67 million during the FPE 2020.

The increase in the administrative expenses was also attributed by the realised loss on foreign exchange by RM0.09 million which was mainly due to the weakening of the RM against the RMB in the FPE 2020 for our raw materials imported from China, in comparison to the FPE 2019.

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(vi) Sales and distribution expenses

The breakdown of our sales and distribution expenses for the FYEs 2017 to 2019, FPEs 2019 and 2020 is as follows:

	Audited						Unaudited		Audited	
	FYE 2017		FYE 2018		FYE 2019		FPE 2019		FPE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Advertising	127	11.0	79	8.1	74	6.1	69	7.5	119	12.5
Commission	456	39.5	518	52.9	767	63.4	588	64.0	453	47.6
Entertainment	407	35.2	225	23.0	46	3.8	37	4.0	67	7.1
Exhibition fees	14	1.2	23	2.3	53	4.4	17	1.9	54	5.7
Petrol, parking and toll	65	5.6	77	7.8	242	20.0	186	20.2	214	22.5
Travelling and accommodation	87	7.5	58	5.9	28	2.3	22	2.4	44	4.6
Total	**1,156**	**100.0**	**980**	**100.0**	**1,210**	**100.0**	**919**	**100.0**	**951**	**100.0**

Financial commentaries

Comparison between FYE 2017 and FYE 2018

Sales and distribution expenses reduced by RM0.18 million (15.2%) to RM0.98 million in the FYE 2018 (FYE 2017: RM1.16 million). Such decrease was due to a decrease in entertainment and advertising expenses. The increase in commission expenses of RM0.06 million is the result of the increase in revenue due to higher purchase orders secured during the year from customers.

Comparison between FYE 2018 and FYE 2019

Sales and distribution expenses increased by RM0.23 million (23.5%) to RM1.21 million in the FYE 2019 (FYE 2018: RM0.98 million). The main increase in selling and distribution expenses was as follows:

(a) increase in commission paid to sales and marketing personnel by RM0.25 million, due to the increase in higher purchase orders secured during the year from customers; and

(b) increase in petrol, toll and parking fees by RM0.17 million, due mainly to additional deliveries to support our business growth.

Comparison between FPE 2019 and FPE 2020

Sales and distribution expenses increased slightly by RM0.03 million (3.5%) to RM0.95 million in the FPE 2020 (FPE 2019: RM0.92 million). The increase in selling and distribution expenses is as follows:

(i) increase in petrol, toll and parking fees, and entertainment expenses by RM0.06 million collectively, due mainly to additional deliveries and related business development expenses to support our business growth prior to the government's imposition of the Movement Control Order;

(ii) increase in advertising, exhibition fees, and travelling and accommodation expenses by RM0.11 million collectively, mainly for advertisement of our product offerings in local building material magazines, exhibition participation cost and related travelling and accommodation expenses incurred for overseas exhibitions prior to the government's imposition of the Movement Control Order;

(iii) which was offset by the decrease in commission expenses by RM0.14 million which was in line with the decrease in revenue. The decrease was also partially due to the discontinuation of commission payable to our Executive Director who oversees our sales and marketing activities in the FPE 2020.

(vii) Finance costs

The breakdown of our finance costs for the FYEs 2017 to 2019, FPEs 2019 and 2020 is as follows:

	Audited						Unaudited		Audited	
	FYE 2017		FYE 2018		FYE 2019		FPE 2019		FPE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Term loans	53	23.8	46	24.6	42	33.3	23	27.7	28	54.9
Bankers' acceptance	89	39.9	97	51.9	60	47.6	46	55.4	17	33.3
Overdraft	34	15.2	12	6.4	2	1.6	2	2.4	-	-
Finance lease/lease liabilities	47	21.1	32	17.1	22	17.5	12	14.5	6	11.8
Total	**223**	**100.0**	**187**	**100.0**	**126**	**100.0**	**83**	**100.0**	**51**	**100.0**

Financial commentaries

Comparison between FYE 2017 and FYE 2018

Our finance cost decreased by RM0.04 million (16.1%) to RM0.19 million in the FYE 2018 (FYE 2017: RM0.22 million) mainly due to a decrease in utilisation of overdraft facilities arising from better cashflow management and decrease in outstanding term loan and finance lease.

Comparison between FYE 2018 and FYE 2019

Our finance cost decreased by RM0.06 million (32.6%) to RM0.13 million in the FYE 2019 (FYE 2018: RM0.19 million) mainly due to a decrease in utilisation of trade facilities and overdraft arising from better cashflow management.

Comparison between FPE 2019 and FPE 2020

Our finance cost decreased by RM0.03 million (38.6%) to RM0.05 million in the FPE 2020 (FPE 2019: RM0.08 million) mainly due to a decrease in utilisation of trade facilities and overdraft arising from better cashflow management. The decrease in finance cost was also attributed to a decrease in lease liabilities arising from the full repayment of 3 units of lorries used for delivery purposes.

(viii) PBT and PBT margin

	Audited			Unaudited	Audited
	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2019**	**FPE 2020**
PBT (RM'000)	4,302	6,633	10,607	7,318	5,512
PBT margin (%)	12.1	16.7	24.1	22.0	18.4

Financial commentaries

Comparison between FYE 2017 and FYE 2018

We recorded higher PBT margin of 16.7% for the FYE 2018 (FYE 2017: 12.1%). This was a result of the decrease in our operating expenses (i.e. administrative expenses and sales and distribution expenses) and finance costs as a percentage of revenue (from 13.3% in the FYE 2017 to 9.2% in the FYE 2018), while our GP margin remained consistent (FYE 2017: 24.9%, FYE 2018: 24.8%). The decrease in operating expenses in the FYE 2018 was mainly due the absence of the one-off loss on fair value adjustment on a piece of freehold agriculture land held for investment recognised in the FYE 2017.

Comparison between FYE 2018 and FYE 2019

We recorded higher PBT margin of 24.1% for the FYE 2019 (FYE 2018: 16.7%). This was a result of a significant increase in GP margin for the FYE 2019 (FYE 2018: 24.8%; FYE 2019: 33.1%), while our operating expenses (i.e. administrative expenses and sales and distribution expenses) and finance costs as a percentage of revenue increased only marginally (from 9.2% in the FYE 2018 to 10.5% in the FYE 2019). The improved GP margin was mainly due to better average selling prices per unit for our metal door frames and fire resistant door sets due to higher material specifications demanded by notable property developers and the growing demand for higher grade 2 hours FRD fire resistant door sets.

Comparison between FPE 2019 and FPE 2020

We recorded a lower PBT margin of 18.4% for the FPE 2020 (FPE 2019: 22.0%) which was mainly due to the increase in administrative expenses by RM0.81 million (33.0%) to RM3.28 million in the FPE 2020 (FPE 2019: RM2.46 million).

(ix) Taxation

	Audited			Unaudited	Audited
	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2019**	**FPE 2020**
Taxation (RM'000)	1,192	1,536	2,472	1,718	1,301
Effective tax rate (%)	27.7	23.2	23.3	23.5	23.6
Statutory tax rate (%)	24.0	24.0	24.0	24.0	24.0

Financial commentaries

Comparison between FYE 2017 and FYE 2018

In the FYE 2018, our tax expense was RM1.54 million at the back of PBT of RM6.63 million, translating into an effective tax rate of 23.2% which is lower than the statutory tax rate. This was primarily due to the fair value gain on a piece of freehold agriculture land held for investment amounting to RM0.25 million, which was included in the FYE 2018, over-provision of tax adjustment, and higher capital and re-investment allowances claimed for acquisition of PPE.

Comparison between FYE 2018 and FYE 2019

Our tax expenses increased by RM0.94 million (60.9%) to RM2.47 million in the FYE 2019 (FYE 2018: RM1.54 million) due to higher profits earned from higher revenue contributed from our metal door frames, fire resistant door sets, ironmongery and wooden doors as explained above.

The effective tax rate for the FYE 2019 was marginally higher at 23.3% compared to 23.2% in the FYE 2018, due to the fair value gain on a piece of freehold agriculture land held for investment, amounting to RM0.40 million, which was included in the FYE 2019 and higher capital and re-investment allowances claimed for acquisition of PPE.

Comparison between FPE 2019 and FPE 2020

Our tax expenses decreased by RM0.42 million (24.3%) to RM1.30 million in the FPE 2020 (FPE 2019: RM1.72 million) due to lower profits earned as a result of lower revenue contributed from our metal door frames and wooden doors as explained above.

The effective tax rate for the FPE 2020 was marginally higher at 23.6% as compared to 23.5% in the FPE 2019, due mainly to the increase in certain expenses (such as entertainment expenses and professional fees) which are not allowed for tax deduction.

11.2.3 Review of financial position

The following table sets out the summary of the assets and liabilities for the FYEs 2017 to 2019 and FPE 2020 which have been extracted from the Accountants' Report set out in Section 12 and should be read in conjunction thereto:

(i) Assets

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current assets				
PPE	8,230	8,375	9,731	9,744
Investment property	2,550	2,800	324	324
Total non-current assets	**10,780**	**11,175**	**10,055**	**10,068**

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current assets				
Inventories	1,893	2,757	2,909	3,747
Trade receivables	9,827	12,622	15,029	12,107
Other receivables	100	166	334	1,377
Current tax assets	-	-	-	205
Amount owing by director	-	1,296	-	-
Short term deposits	431	564	1,704	2,877
Cash at bank	1,342	1,336	3,177	3,089
Total current assets	**13,593**	**18,741**	**23,153**	**23,402**
TOTAL ASSETS	**24,373**	**29,916**	**33,208**	**33,470**

Financial commentaries

Comparison between FYE 2017 and FYE 2018

Non-current assets

Our non-current assets increased by RM0.40 million mainly due:

(a) Purchase of additional PPE amounting to RM0.22 million;

(b) Fair value gain of RM0.25 million recognised during the FYE 2018 for the piece of freehold agriculture land held for investment; and

(c) Increase in revaluation of freehold land and buildings by RM0.38 million.

The increase in non-current assets was offset by the decrease in PPE of RM0.45 million resulting from depreciation charges during the financial year.

Current assets

Our current assets increased by RM5.15 million mainly due to:

(a) Increase by RM0.86 million in inventories due to higher stock holding as revenue increases;

(b) Increase by RM2.80 million in trade receivables was mainly due to a greater proportion of trade receivables with more than 60 days past due as at 31 August 2018 as compared to 31 August 2017. Total trade receivables with more than 60 days past due were RM1.99 million and RM2.91 million, representing 20.2% and 23.0% of total receivables as at 31 August 2017 and 31 August 2018, respectively. The increase was mainly attributed to longer credit term granted to one of our major customers with more than 60 days past due amounting to an increase by RM0.36 million as at 31 August 2018. Generally, the increase in trade receivables is also attributable by the increase in revenue, which increased by 12.2%.

(c) Increase in other receivables by RM0.07 million mainly due to advance deposit to suppliers and advances to staff;

(d) Increase by RM1.30 million from director arising from advances extended to director, which was fully repaid in the FYE 2019; and

(e) Increase by RM0.13 million in additional placement of short term deposits.

The increase in current assets was partially offset by the decrease in cash at bank by RM6,000.

Comparison between FYE 2018 and FYE 2019

Non-current assets

Our non-current assets decreased by RM1.12 million mainly due to:

(a) Decrease by RM3.20 million in respect of a piece of freehold agriculture land held for investment, which was distributed to the Econframe Marketing Vendors as dividend-in-specie during the FYE 2019; and

(b) Decrease in PPE by RM0.50 million resulting from depreciation charges during the FYE 2019.

The decrease was offset by:

(a) Purchase of additional PPE amounting to RM0.47 million;

(b) Increase in revaluation of freehold land and buildings by RM1.70 million; and

(c) Increase in fair value of investment property by RM0.40 million.

Current assets

Our current assets increased by RM4.41 million mainly due to:

(a) Increase by RM0.15 million in inventories due to higher stock holding as revenue increases;

(b) Increase by RM2.41 million in trade receivables was mainly due to a greater proportion of trade receivables with more than 60 days past due as at 31 August 2019 as compared to 31 August 2018. Total trade receivables with more than 60 days past due were RM2.91 million and RM4.17 million, representing 23.0% and 27.7% of total receivables as at 31 August 2018 and 31 August 2019, respectively. The increase was mainly attributed to longer credit term granted to 3 of our major customers, with more than 60 days past due amounting to an increase by RM1.09 million as at 31 August 2019. Generally, the increase in trade receivables was also attributable by the increase in revenue, which increased by 10.7%;

(c) Increase in other receivables by RM0.17 million mainly due to prepayment of expenses for the listing exercise;

(d) Increase by RM1.14 million in additional placement of short term deposits; and

(e) Increase by RM1.84 million in cash and bank balances.

The increase in current assets was partially offset by the decrease in amount owing by director of RM1.30 million.

Comparison between FYE 2019 and FPE 2020

Non-current assets

Our non-current assets increased by RM0.01 million mainly due to the purchase of additional PPE comprising 1 unit of glue spreader machine, 2 units of press machines, 1 forklift, 1 motor vehicle for administrative use and renovation of 2 meeting rooms in Factory 3, amounting to RM0.36 million and recognition of rights-of-use for leases amounting to RM0.05 million, which was partially offset by the increase in depreciation charges of RM0.40 million.

Current assets

Our current assets increased by RM0.25 million mainly due to:

(a) Increase by RM0.84 million in inventories due to higher stock holding as a result of the suspension of businesses during the Movement Control Order nationwide;

(b) Increase in other receivables by RM1.04 million mainly due to prepayment of expenses for the listing exercise and deposits for purchases of raw materials from China;

(c) Increase by RM1.17 million in additional placement of short term deposits; and

(d) Increase by RM0.21 million in current tax assets.

The above increase was offset by:-

(a) Decrease by RM2.92 million in trade receivables which was in tandem with the decrease in revenue for the FPE 2020, which decreased by RM3.29 million (9.9%) as compared to the FPE 2019. The decrease in revenue was mainly due to the Movement Control Order resulting in suspension of businesses, imposition of inter-state restrictions and restricted movement of people. The decrease in trade receivables was partially offset by the slower pace of collection of debts as a result of the Movement Control Order resulting in greater proportion of trade receivables with more than 60 days past due as at 31 May 2020 as compared to 31 August 2019. Total trade receivables with more than 60 days past due were RM4.17 million and RM5.28 million, representing 27.7% and 43.6% of total receivables as at 31 August 2019 and 31 May 2020, respectively; and

(b) Decrease by RM0.09 million in cash and bank balances.

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(ii) Liabilities

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current liabilities				
Bank borrowings	858	660	569	515
Finance lease liabilities /lease liabilities	420	167	65	62
Deferred tax	1,148	1,169	1,497	1,435
Total non-current liabilities	**2,426**	**1,996**	**2,131**	**2,012**
Current liabilities				
Trade payables	1,182	2,108	1,664	586
Other payables and accruals	405	515	902	442
Amount owing to director	488	-	-	-
Bank borrowings	2,652	2,606	1,508	164
Finance lease liabilities/ lease liabilities	280	253	110	46
Taxation	723	953	884	-
Total current liabilities	**5,730**	**6,435**	**5,068**	**1,238**
TOTAL LIABILITIES	**8,156**	**8,431**	**7,199**	**3,250**

Comparison between FYE 2017 and FYE 2018

Non-current liabilities

Our non-current liabilities reduced by RM0.43 million mainly due to:

(a) Repayment by RM0.20 million in bank borrowings of our existing term loans and RM0.25 million in finance lease; and

(b) Increase by RM0.02 million in deferred tax liabilities due to fair value gain on a piece of freehold agriculture land held for investment.

Current liabilities

Our current liabilities increased by RM0.71 million mainly due to:

(a) Increase by RM0.93 million in trade payables due to higher purchases to support the supply for the increase in our revenue. The increase in trade payables was mainly due to an increase in outstanding sum owing to 2 of our major suppliers for the supply of wooden doors and steel coil, from RM0.57 million and RM0.17 million as at 31 August 2017 to RM0.93 million and RM0.37 million as at 31 August 2018, respectively. The increase was mainly due to a greater volume of purchases transacted with the said major 2 suppliers amounting to an increase by RM0.83 million towards the end of the FYE 2018;

(b) Increase by RM0.11 million in other payables due to accrued salaries; and

(c) Increase in taxation by RM0.23 million due to increase in tax liability arising from higher profit.

The increase in current liabilities was offset by the reduction by RM0.56 million due to repayment of bank borrowings of RM0.04 million, finance lease of RM0.03 million, and amount owing to director of RM0.49 million.

Comparison between FYE 2018 and FYE 2019

Non-current liabilities

Our non-current liabilities increased by RM0.14 million due to the increase in deferred tax liabilities of RM0.33 million arising from the fair value gain on a piece of freehold agriculture land held for investment, which was offset by the repayment of RM0.09 million in bank borrowings of our existing term loans and RM0.10 million in finance lease.

Current liabilities

Our current liabilities reduced by RM1.37 million mainly due to:

(a) Repayment of trade payables of RM0.44 million;

(b) Repayment by RM1.10 million in bank borrowings and RM0.14 million in finance lease; and

(c) Decrease in tax payables by RM0.07 million.

The decrease in current liabilities was offset by the increase in other payables and accruals by RM0.39 million due to the increase of receipt of advance deposits from customers of RM0.17 million, and increase in accruals of wages, EPF, SOCSO, Potongan Cukai Berjadual (PCB), sub-contractors' charges and audit fee of RM0.22 million.

Comparison between FYE 2019 and FPE 2020

Non-current liabilities

Our non-current liabilities decreased by RM0.12 million due to the repayment of RM0.06 million in our existing term loans and lease liabilities, and the reversal of provision of deferred tax of RM0.06 million.

Current liabilities

Our current liabilities reduced by RM3.83 million mainly due to:-

(a) Decrease by RM1.08 million in trade payables due to lower purchases arising from lower production activities from the sudden suspension of businesses as a result of the Movement Control Order;

(b) Repayment in our bankers' acceptance and lease liabilities of RM1.35 million and RM0.06 million respectively;

(c) Decrease in tax payables of RM0.88 million, as a result of higher tax instalments paid in the FPE 2020 as compared to the FPE 2019; and

(d) Decrease in other payables and accruals by RM0.46 million mainly due to the decrease in sales tax payable, deposit received, accruals of wages, EPF, SOCSO, and Potongan Cukai Berjadual (PCB).

11.2.4 Review of cash flows

The following table sets out the summary of the combined statements of cash flows for the FYEs 2017 to 2019, FPEs 2019 and 2020, which have been extracted from the Accountants' Report set out in Section 12 and should be read in conjunction thereto:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net cash from operating activities	1,102	3,016	5,495	2,960
Net cash used in investing activities	(305)	(339)	(1,491)	(1,481)
Net cash used in financing activities	(331)	(3,148)	(1,503)	(1,567)
Cash and cash equivalents				
Net changes	**466**	**(471)**	**2,501**	**(88)**
At the beginning of the financial year/period	681	1,147	676	3,177
At the end of the financial year/period	**1,147**	**676**	**3,177**	**3,089**

Financial commentaries

FYE 2017

Net cash from operating activities

For the FYE 2017, we generated net cash inflow from operating activities of RM1.10 million. We collected approximately RM36.09 million from our customers and other operating income received which was partially offset by cash payments of approximately RM34.99 million. Such payments were mainly for:

(i) Approximately RM28.50 million paid to our trade suppliers;

(ii) Approximately RM5.01 million paid for our operating expenses and salaries; and

(iii) RM1.48 million for payment of income tax.

Net cash for investing activities

For the FYE 2017, we recorded net cash outflow of RM0.31 million from our investing activities, mainly due to:

(i) Purchase of PPE for RM0.41 million, of which RM0.19 million were financed with leasing arrangements. These PPE purchases comprised mainly 3 units of motor vehicles which was purchased as general car pool purposes for business/site meetings, 1 unit of condominium located at Cyberjaya, Selangor purchased based on goodwill basis from one of our customer who is a property developer and for which payment is on progress claim basis, and office equipment and furniture and fittings for office expansion; and

(ii) Placement of fixed deposit of RM0.13 million as security for bank borrowings.

The outflow was offset by the proceeds from the disposal of a motor vehicle of RM0.03 million and interest received of RM0.01 million.

Net cash for financing activities

For the FYE 2017, we recorded net cash outflow of RM0.33 million from our financing activities. This was mainly due to the following outflows:

(i) Net repayment of borrowings of RM0.28 million comprising repayments of term loan of RM0.20 million and finance lease of RM0.34 million which was offset by the net drawdown of bankers' acceptances of RM0.26 million; and

(ii) Repayment to director of RM0.05 million.

<u>FYE 2018</u>

Net cash from operating activities

For the FYE 2018, we generated net cash inflow from operating activities of RM3.02 million. We collected approximately RM37.13 million from our customers and other operating income received which was partially offset by cash payments of approximately RM34.11 million. Such payments were mainly for:

(i) Approximately RM27.85 million paid to our trade suppliers;

(ii) Approximately RM4.98 million paid for our operating expenses and salaries; and

(iii) RM1.28 million for payment of income tax paid.

Net cash for investing activities

For the FYE 2018, we recorded net cash outflow of RM0.34 million from our investing activities, mainly due to:

(i) Progress claim payment of RM0.16 million for the 1 unit of condominium located at Cyberjaya, Selangor which was purchased in the FYE 2017 and purchase of office equipment, computers and furniture and fittings of RM0.06 million to cater for office expansion; and

(ii) Placement of fixed deposit of RM0.13 million as security for bank borrowings.

The outflow was offset by interest received of RM0.01 million.

Net cash for financing activities

For the FYE 2018, we recorded net cash outflow of RM3.15 million from our financing activities. This was mainly due to the following outflows:

(i) Repayment of borrowings of RM1.16 million comprising repayments of term loan of RM0.23 million, finance lease of RM0.31 million and bankers' acceptance of RM0.62 million;

(ii) Repayment to director of RM0.49 million, and payment of additional advances to director of RM1.30 million. This advance was fully repaid by the director in the FYE 2019; and

(iii) Interim dividend payment for the FYE 2017 of RM0.20 million paid on 1 February 2018 by Econframe Pre-Hung to the Econframe Pre-Hung Vendors at RM2.00 per share.

<u>FYE 2019</u>

Net cash from operating activities

For the FYE 2019, we generated net cash inflow from operating activities of RM5.50 million. We collected approximately RM41.67 million from our customers and other operating income received which was partially offset by cash payments of approximately RM36.17 million. Such payments were mainly for:

(i) Approximately RM27.81 million paid to our trade suppliers;

(ii) Approximately RM5.81 million paid for our operating expenses and salaries; and

(iii) RM2.55 million for payment of income tax paid.

Net cash for investing activities

For the FYE 2019, we recorded net cash outflow of RM1.49 million from our investing activities, mainly due to:

(i) Purchase of PPE for RM0.47 million, of which RM0.10 million were financed with leasing arrangements. These PPE purchases comprised 1 unit of stamping machine and 1 unit of CNC bending machine for the production of our metal door frames, 1 unit of lorry for delivery of finished goods, 1 unit of forklift for production, and 1 unit of motorbike for despatch; progress claim payments for the 1 unit of condominium located at Cyberjaya, Selangor which was purchased in the FYE 2017, and computer, office equipment, furniture and fittings, and renovation to cater for recruitment of additional personnel during the year; and

(ii) Placement of fixed deposit of RM1.14 million as additional security for bank borrowings, of which RM1.00 million was to replace the piece of freehold agriculture land held for investment which was used as collateral, in view of the dividend-in-specie of the said land to the Econframe Marketing Vendors during the FYE 2019.

The outflow was offset by the interest received of RM0.02 million.

Net cash for financing activities

For the FYE 2019, we recorded net cash outflow of RM1.50 million from our financing activities. This was mainly due to the following outflows:

(i) Repayment of borrowings of RM1.00 million comprising repayments of term loan of RM0.09 million and finance lease of RM0.37 million as well as net repayment of bankers' acceptance of RM0.54 million; and

(ii) Dividend payment of RM1.80 million comprising interim dividend payment for the FYE 2017 of RM0.30 million paid on 25 October 2018 by Econframe Pre-Hung to the Econframe Pre-Hung Vendors at RM3.00 per share and interim dividend payment for the FYE 2019 of RM1.50 million paid on 21 June 2019 by Econframe Marketing to the Econframe Marketing Vendors at RM1.50 per share.

The outflow was offset with the repayment from director of RM1.30 million.

FPE 2020

Net cash from operating activities

For the FPE 2020, we generated net cash inflow from operating activities of RM2.96 million. We collected approximately RM31.30 million from our customers and other operating income received which was partially offset by cash payments of approximately RM28.34 million. Such payments were mainly for:

(i) Approximately RM21.16 million paid to our trade suppliers;

(ii) Approximately RM4.73 million paid for our operating expenses and salaries; and

(iii) RM2.45 million for payment of income tax paid.

Net cash for investing activities

For the FPE 2020, we recorded net cash outflow of RM1.48 million from our investing activities, due mainly to:

(i) Purchase of PPE of RM0.36 million, which comprised mainly of:
- 1 unit of double side glue spreader machine, 2 units of press machines and 1 unit of forklift for the production of our fire resistant doors;
- 1 unit of motor vehicle for administrative use; and
- Renovation of two meeting rooms at Factory 3 to cater for the increase in operating activities.

(ii) Placement of fixed deposit of RM1.17 million as additional security for bank borrowings, of which RM1.00 million was to replace the 3rd party fixed deposit provided by our Managing Director.

The outflow was offset by the interest received of approximately RM0.05 million.

Net cash for financing activities

For the FPE 2020, we recorded net cash outflow of RM1.57 million from our financing activities. This was due to the repayment of term loans of RM0.16 million and lease liabilities of RM0.13 million as well as net repayment of bankers' acceptance of RM1.28 million.

11.3 LIQUIDITY AND CAPITAL RESOURCES

11.3.1 Working capital

Our operations are funded by a combination of internal and external sources of funds. Our internal sources of funds comprise share capital and cash generated from our operating activities, while our external sources of funds are mainly trade facilities, i.e. bankers' acceptance and bank overdrafts.

The decision to utilise either internally generated funds or borrowings for our business operations depends on, amongst others, our cash and bank balances, expected cash inflows, future working capital requirements, future capital expenditure requirements and the interest rates on borrowings.

Our Board is of the opinion that after taking into consideration the existing level of cash and cash equivalents and the gross proceeds raised from our IPO, our Group would have adequate working capital for a period of 12 months from the date of this Prospectus.

As at 31 May 2020, we have:

(i) Cash and bank balances of RM3.09 million; and

(ii) Credit facilities up to a limit of RM6.00 million.

Based on the pro forma consolidated statements of financial position of our Group as at 31 May 2020 (after the Acquisitions but before the Public Issue), our NA position stood at RM30.22 million and our gearing level is approximately 0.03 times. Our NA position and gearing level after the Acquisitions and Public Issue (and utilisation of proceeds) are RM45.91 million and approximately 0.02 times respectively.

At this juncture, we do not foresee any circumstances which may materially affect our liquidity. Our Group has not encountered any major disputes with our debtors and our allowance for impairment loss in respect of our doubtful debts is low. This measure has proven to be effective while maintaining a cordial relationship with our customers.

11.4 BORROWINGS

We utilise credit facilities such as bank overdrafts and trade financing such as bankers' acceptances to partially finance our working capital. In addition, we also utilise term loans to finance the purchase of our PPE.

Our total outstanding bank borrowings as at 31 May 2020 stood at RM0.79 million, details of which are set out as follows. All our bank borrowings are interest-bearing and denominated in RM.

	Purpose	**Tenure**	**Interest rate**	**As at 31 May 2020**
			% per annum	**RM'000**
Interest bearing short-term borrowings, payable within 1 year:				
Term loans	For financing the acquisitions of Factory 1, 2, 3 and 4 and 1 unit of condominium located at Cyberjaya, Selangor	5 to 7 years	3.69 to 3.79	164

	Purpose	Tenure	Interest rate	As at 31 May 2020
			% per annum	RM'000
Bankers' acceptance	Working capital requirements	90 days	4.10	-
Lease liabilities	Finance purchase and leasing of PPE	4 to 5 years	6.28	46
			Sub-total	**210**
Interest bearing long-term borrowings, payable after 1 year:				
Term Loans	For financing the acquisitions of Factory 1, 2, 3 and 4 and 1 unit of condominium located at Cyberjaya, Selangor	5 to 7 years	3.69 to 3.79	515
Lease liabilities	Finance purchase and leasing of PPE	4 to 5 years	6.28	62
			Sub-total	**577**
			Total borrowings	**787**

Pro forma gearing (times)

After Acquisitions before the Public Issue (1)	0.026
After the Public Issue (2)	0.017

Notes:

(1) Computed based on our pro forma shareholders' funds of RM30.22 million in the pro forma consolidated statements of financial position after the Acquisitions before the Public Issue.

(2) Computed based on our pro forma shareholders' funds of RM45.91 million in the pro forma consolidated statements of financial position after the Acquisitions and Public Issue (and utilisation of proceeds).

Our pro forma gearing ratio is expected to register approximately 0.03 times before the Public Issue, and approximately 0.02 times after the Public Issue (and utilisation of proceeds) due to the increase in shareholders' funds arising from the issuance of new Shares pursuant to the Public Issue.

Our borrowings carry the following interest rates for the financial years and financial period under review:

	FYE 2017	FYE 2018	FYE 2019	FPE 2020
	% per annum			
Floating rates				
Term loans	4.65	4.84 to 4.94	4.84 to 4.94	3.69 to 3.79
Bankers' acceptance	3.50 to 4.30	4.35	4.10	4.10
Bank overdraft	7.60	7.96	7.81	6.81
Fixed rates				
Finance lease liabilities/lease liabilities	5.74	5.74	5.80	6.28

The following table sets out the maturities of our borrowings and finance lease liabilities:

	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Bank borrowings [1]				
Within the next 12 months	2,652	2,606	1,508	164
After the next 12 months:				
Later than 1 year but not later than 2 years	198	209	255	247
Later than 2 years but not later than 3 years	569	445	314	268
Later than 3 years	91	6	-	-
Finance lease liabilities/ lease liabilities				
Within the next 12 months	280	253	110	46
After the next 12 months:	253	138	20	33
Later than 1 year but not later than 2 years	138	29	21	22
Later than 2 years but not later than 3 years	29	-	24	7

Note:

(1) Including bankers' acceptance.

As at the LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currency. We have not defaulted on payments of principal sums and/or interests in respect of any borrowings throughout the financial years/period under review and the subsequent financial period up to the LPD.

As at the LPD, neither our Group nor our subsidiaries is in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan which can materially affect our financial position and results or business operations or the investments by holders of our securities. We do not encounter any seasonality in our borrowings trend and there are no restrictions on our committed borrowing facilities i.e. our banker.

11.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

From an accounting perspective, financial instruments may include fixed deposits with licensed banks, trade and other receivables, trade and other payables and borrowings as shown on our combined statements of financial position. These financial instruments are used in our ordinary course of business.

As at the LPD, save as disclosed in Section 11.4 above, we do not have or utilise any other financial instruments. We finance our operations mainly through cash generated from our operations, credit extended by our suppliers as well as external sources of funds which mainly comprise bank borrowings. The principal usages of these bank borrowings are for working capital, to partially finance the purchase of PPE, acquisitions of our factories and the condominium located at Cyberjaya, Selangor.

Our borrowings (save for our finance lease liabilities which are based on fixed rates) are based on base lending rate plus or minus a rate which varies depending on the type of facility.

11.6 MATERIAL CAPITAL COMMITMENTS

As at the LPD, we do not have any material commitments.

11.7 MATERIAL LITIGATION AND CONTINGENT LIABILITIES

We are not engaged in any material litigation, claim or arbitration either as plaintiff or defendant and our Directors do not know of any proceeding pending or threatened or of any fact likely to give rise to any proceeding which might materially or adversely affect our position or business as at the LPD.

Our Directors are not aware of any contingent liability incurred by us or our subsidiaries, which upon becoming enforceable, may have a material effect on our financial position or our subsidiaries as at the LPD.

11.8 KEY FINANCIAL RATIOS

The key financial ratios of our Group for the FYEs 2017 to 2019 and FPE 2020 are as follows:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2020**
Trade receivables turnover (days)(1)	103	103	114	124
Trade payables turnover (days)(2)	30	20	23	15
Inventory turnover (days)(3)	15	28	35	45
Current ratio (times)(4)	2.37	2.91	4.57	18.90
Gearing ratio (times)(5)	0.26	0.17	0.09	0.03

Notes:

(1) Computed based on the average trade receivables over revenue for the financial year/period multiplied by 365 days for each financial year or 274 days for the financial period.

(2) Computed based on average trade payables over cost of sales for the financial year/period multiplied by 365 days for each financial year or 274 days for the financial period.

(3) Computed based on average inventory over cost of sales for the financial year/period multiplied by 365 days for each financial year or 274 days for the financial period.

(4) Computed based on current assets over current liabilities as at each financial year/period end.

(5) Computed based on our total borrowings over total equity as at each financial year/period end.

Our average trade receivables turnover periods for the FYEs 2017, 2018 and 2019 and FPE 2020 were 103, 103, 114 and 124 days respectively. Due to the nature of the industry, the normal credit period granted by our Group to our customers range from 30 to 120 days from the date of invoice. The higher trade receivables turnover period for the FPE 2020 was mainly due to the slower pace of collection of debts as a result of the Movement Control Order due to suspension of businesses, imposition of inter-state travel restrictions and restricted movement of people.

Our average trade payables turnover periods for the FYEs 2017, 2018 and 2019 and FPE 2020 were 30, 20, 23 and 15 days respectively wherein the normal credit terms granted by our trade creditors to our Group are cash terms and credit terms of between 30 to 60 days from the date of invoice. Our average trade payables turnover periods for the periods under review were on the lower end of the credit terms of between 30 to 60 days. Steel coil constitutes a major component of our raw materials, accounting for approximately 50% of our purchases. In order to obtain the best pricing for our raw material supplies, we elected to pay our trade creditors promptly. In addition, our trade payables turnover ratio decreased from 30 days in the FYE 2017 to 23 days in the FYE 2019 which was mainly due to the increase in purchases of raw materials for the manufacturing of our own DUROE® brand of fire resistant door sets such as ironmongeries, fire resistant boards and insulation materials which were imported from China and where we were granted short credit terms. The lower trade payable turnover period for the FPE 2020 was attributed to the lower volume of purchases of raw materials arising from lower production activities as a result of the Movement Control Order.

We fund our working capital requirements from cash collected from our customers and other operating income, drawdown of bankers' acceptance facilities and from reinvested earnings from our operations. As raw materials are easily available and with ready supply, we also do not need to maintain a large stock of raw materials and as such, manage with less working capital tied up in inventory.

We maintain a healthy capital ratio in order to support our business where our gearing ratio recorded a decreasing trend of 0.26 times, 0.17 times and 0.09 times and our current ratio recorded an increasing trend of 2.37 times, 2.91 times and 4.57 times as at 31 August 2017, 31 August 2018 and 31 August 2019 respectively, mainly due to lower utilisation of loans and borrowings coupled with higher PAT achieved in each FYEs. We recorded a lower gearing ratio of 0.03 times and higher current ratio of 18.90 times for the FPE 2020 as compared to past FYEs mainly due to lower utilisation of bankers' acceptances facilities attributed to lower volume of purchases of raw materials arising from lower production activities as a result of the Movement Control Order.

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11.8.1 Trade receivables turnover

The ageing analysis of our trade receivables as at 31 May 2020 is as follows:

	Trade receivables as at 31 May 2020		Amount collected from 1 June 2020 up to the LPD	Balance of trade receivables which have yet to be collected as at the LPD
	RM'000	Percentage of trade receivables	RM'000	RM'000
	(a)	(a)/total of (a)	(b)	(c) = (a)-(b)
Within credit period	1,694	14.0%	556	1,138
Past due but not impaired:	10,413	86.0%	8,873	1,540
• 1 to 30 days	2,180	18.0%	1,825	355
• 31 to 60 days	2,949	24.4%	2,698	251
• 61 to 90 days	1,911	15.8%	1,723	188
• 91 to 120 days	1,552	12.8%	1,427	125
• More than 120 days	1,821	15.0%	1,200	621
Total	**12,107**	**100.0%**	**9,429**	**2,678**

The normal credit period granted by our Group to our customers ranges from 30 to 120 days from the date of invoice. Our credit terms to customers are assessed and approved on a case-by-case basis taking into consideration various factors such as relationship with customers, customers' payment history, credit worthiness and quantum of amount outstanding. As at the LPD, RM0.93 million of our trade receivables were more than 60 days past due which have yet to be collected. Of this, 76.7% or RM0.72 million are related to our fire resistant door sets. We are of the view we are able to collect the majority of the outstanding amount as it is our business practice to release the fire tags after the completion of the construction for inspection by BOMBA, upon receiving all our outstanding payments.

Our average trade receivables turnover periods for the FYEs 2017, 2018 and 2019 and FPE 2020 were 103, 103, 114 and 124 days respectively. The higher trade receivables turnover period for the FPE 2020 was mainly due to the slower pace of collection of debts as a result of the Movement Control Order where businesses were suspended and travel and movement of people were restricted.

With respect to overdue trade receivables in the past, we have been able to recover payment eventually. As such, we are of the view that all trade receivables overdue but not impaired are still recoverable. Our management closely monitors the recoverability of our overdue trade receivables on a regular basis, and, when appropriate, provides for impairment of overdue trade receivables that are more than 1 year. We will also assess the adequacy of impairment loss allowance on overall trade receivables balance at every reporting period based on historical collection experience. Our net impairment loss on trade receivables for the financial years/period under review are as follows:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Impairment loss on trade receivables	-	-	31	-

The impairment loss for the FYE 2019 was for provision for doubtful debts of RM30,672 which was reversed in FPE 2020.

11.8.2 Trade payables turnover

The ageing analysis of our trade payables as at 31 May 2020 is as follows:

	Trade payables as at 31 May 2020		Amount paid from 1 June 2020 up to LPD	Balance of trade payables which have yet to be paid as at LPD
	RM'000	Percentage of trade payables	RM'000	RM'000
	(a)	(a)/total of (a)	(b)	(c) = (a)-(b)
Within credit period	507	86.5%	507	-
Exceeding credit period:				
• 1 to 30 days	55	9.4%	55	-
• 31 to 60 days	4	0.7%	4	-
• More than 60 days	20	3.4%	20	-
	79	13.5%	79	-
Total	**586**	**100.0%**	**586**	**-**

The normal credit terms granted by our trade creditors to our Group are cash terms and credit terms between 30 to 60 days from the date of invoice.

Our average trade payables turnover periods for the FYEs 2017, 2018 and 2019 and FPE 2020 were 30, 20, 23 days and 15 days respectively.

As at the LPD, we have paid all our trade payables. There are also no disputes in respect of trade payables and no legal action has been initiated by our suppliers to demand for payment.

11.8.3 Inventories

Our Group's inventories mainly consist of ironmongery and the raw materials for the production of our metal door frames and fire resistant doors such as steel coils, fire resistant boards, plywood and insulation materials. Our inventory turnover days were between 15 days to 35 days for the FYEs 2017 to 2019 and 45 days for the FPE 2020. Our inventory turnover days increased from 15 days in the FYE 2017 to 28 days in the FYE 2018 as we imported raw materials for our fire resistant doors (fire resistant boards) and ironmongery to cater for shipment lead time in anticipation of the increase in sales volume for our DUROE® brand of fire resistant door sets, in tandem with our shift in strategy towards manufacturing our own brand of fire resistant door sets. As our DUROE® brand of fire resistant door sets gained traction in the market, our inventory turnover days increased further from 28 days in the FYE 2018 to 35 days in the FYE 2019 as we imported a higher volume of raw materials for our fire resistant doors (fire resistant boards) and ironmongery to cater for shipment lead time in anticipation of further increase in sales volume for fire resistant door sets and ironmongery to be sold under our fire resistant door sets. The higher inventory turnover days of 45 days in the FPE 2020 was mainly due to lower production activities from the sudden suspension of businesses as a result of the Movement Control Order.

We conduct a monthly management meeting to review the stockholding level and inventory ageing analysis. Approval is needed from the authorised management level for replenishment of stocks and write off of slow moving stocks, if any.

11.8.4 Current ratio

Our current ratio throughout the financial years and financial period under review is as follows:

	Audited			
	31 August 2017	**31 August 2018**	**31 August 2019**	**31 May 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current assets	13,593	18,741	23,153	23,402
Current liabilities	5,730	6,435	5,068	1,238
Net current assets	**7,863**	**12,306**	**18,085**	**22,164**
Current ratio (times)	2.37	2.91	4.57	18.90

Our current ratio ranges from 2.37 times to 18.90 times for the financial years and financial period under review. Our Group is capable of meeting our current obligations as our inventories and trade receivables, which can be readily converted into cash together with our bank balances are able to meet our current liabilities. In the FYE 2018, our current ratio increased to 2.91 times mainly due to the increase in inventories and trade receivables of approximately RM0.86 million and RM2.80 million respectively, which contributed mainly by the increase in our revenue as well as the amount due from director of RM1.30 million.

In the FYE 2019, our current ratio increased to 4.57 times mainly due to increase in trade receivables of approximately RM2.41 million contributed by the increase in our revenue, increase in cash and bank balances of RM1.84 million as we achieved higher PAT in the FYE 2019.

In the FPE 2020, our current ratio increased to 18.90 times mainly due to the increase in inventories by approximately RM0.84 million arising from lower production output (as disclosed in Section 7.6) during the Movement Control Order, increase in placement of short term deposits of RM1.17 million, decrease in borrowings by RM1.41 million due mainly to the repayment of bankers' acceptance and decrease in trade payables of approximately RM1.08 million, due to the lower volume of purchases of raw materials during the period of the Movement Control Order.

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11.8.5 Gearing ratio

Our gearing ratio throughout the financial years and financial period under review is as follows:

	Audited			
	31 August 2017	31 August 2018	31 August 2019	31 May 2020
	RM'000	RM'000	RM'000	RM'000
Total loans and borrowings	4,210	3,686	2,252	787
Total equity	16,217	21,485	26,009	30,220
Gearing ratio (times)	0.26	0.17	0.09	0.03

Our gearing ratio improved from 0.26 times as at 31 August 2017 to 0.09 times as at 31 August 2019 due to periodic repayment of our existing borrowings coupled with the higher PAT achieved in respective FYEs. We recorded a lower gearing ratio of 0.03 times as at 31 May 2020 as compared to past financial year ends mainly due to lower utilisation of bankers' acceptances facilities attributed to lower volume of purchases of raw materials as a result of lower production activities arising from the Movement Control Order.

As at 31 May 2020, our unutilised credit facilities stood at RM6.00 million.

11.9 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

There were no government, economic, fiscal or monetary policies or factors which had materially affected our operations during the financial years/period under review. There is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward.

Risks relating to government, economic, fiscal or monetary policies or factors which may materially affect our operations are set out in Section 9.

11.10 IMPACT OF INFLATION

During the financial years/period under review, our financial performance was not materially affected by the impact of inflation. However, there is no assurance that our financial performance will not be adversely affected by the impact of inflation moving forward. Any significant increase of cost of sales in the future may adversely affect our operations and performance in the event where we are unable to pass on higher costs to our customers through an increase in selling prices.

11.11 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES ON OUR GROUP'S OPERATIONS

11.11.1 Impact of foreign exchange rates

	FYE 2017		FYE 2018		FYE 2019		FPE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Purchases transacted in RM	19,375	80.5	22,675	81.5	17,734	70.2	12,511	68.2
Purchases transacted in RMB	4,694	19.5	5,134	18.5	7,520	29.8	5,826	31.8
Total	**24,069**	**100.0**	**27,809**	**100.0**	**25,254**	**100.0**	**18,337**	**100.0**

For the financial years and financial period under review, our purchases that are denominated in foreign currency ranged from 18.5% to 31.8% of our total purchases.

Our Group is exposed to transactional costs on purchases of raw materials for fire resistant boards and ironmongery from our suppliers in China. We do not recognise any gain or loss on foreign exchange fluctuations for the import of raw materials for the FYEs 2017, 2018 and 2019 as the impact of the fluctuation is not material. We recorded a realised foreign exchange loss of RM0.09 million for the FPE 2020, mainly due to the weakening of the RM against the RMB for the raw materials imported from China.

Our customers are geographically located locally, therefore we transact in RM currency.

11.11.2 Impact of interest rates

	Audited			
	FYE 2017	FYE 2018	FYE 2019	FPE 2020
Interest coverage ratio (times)[(1)]	20	36	85	108

Note:

(1) Computed based on EBIT over finance costs.

Our interest coverage ratio was between 20 to 108 times for the FYEs 2017 to 2019 and FPE 2020, indicating that our Group has been able to generate sufficient profits from operations to meet our interest serving obligations.

Our Group's financial results for the FYEs 2017 to 2019 and FPE 2020 were not materially affected by fluctuations in interest rates.

11.11.3 Impact of commodity prices

Our Group is exposed to fluctuation in prices of steel products such as steel coil which is affected by factors beyond our control, which amongst others, include demand and supply conditions of steel in the global market, prices of raw materials for the production of steel such as coal and iron and prevailing energy costs.

11.12 ORDER BOOK

We do not maintain an order book as we generate sales of our products by way of receipt of purchase orders from our customers on an ongoing basis. We sell our products on project basis (i.e. to main contractors and building materials trading arms of property developers in Malaysia) for the purposes of construction in property developments. We do not provide installation or maintenance services for our products.

11.13 UNFULFILLED PURCHASE ORDERS

Revenue is generated as and when we deliver our products to our customers. As at the LPD, our outstanding and unfulfilled purchase orders amounted to approximately RM47.01 million, as detailed below. The said purchase orders are expected to be fulfilled by end 2021.

	RM'000
Metal door frame	15,370
Fire resistant door set	20,250
Ironmongery	4,050
Wooden door	7,340

The conversion of unfulfilled purchase orders into revenue are subject to delivery and acceptance of orders by our customers. If the unfulfilled orders are not accepted by our customers, it will not be converted into revenue.

We generally agree on the delivery timeline with our customers before accepting any purchase orders. We do not accept purchase orders that we are unable to fulfil within the delivery timeline as specified by our customer.

11.14 DIRECTORS' DECLARATION ON OUR GROUP'S FINANCIAL PERFORMANCE

Our Board is of the opinion that:

(i) Our Group's revenue is expected to remain sustainable with an upward growth trend, in line with the outlook of the metal door frame and door industry as set out in the IMR Report in Section 8;

(ii) Our liquidity is expected to improve further subsequent to the Public Issue given the additional funds to be raised for our Group to carry out our business strategies and plans as stated in Section 7.17;

(iii) Our revenue and profitability is expected to improve following the completion of the construction of the new factory as stated in Section 7.17; and

(iv) Our capital resources is expected to strengthen, considering the amount to be raised from our IPO as well as internally generated funds. We may consider debt funding for our business expansion should the need arises.

In addition to the above, our Board confirms that there are no circumstances which would result in a significant decline in our revenue and profitability or know of any factors that are likely to have a material impact on our liquidity, revenue or profitability.

11.15 TREND INFORMATION

Based on our track record for the FYEs 2017 to 2019 and FPE 2020, including our segmental analysis of revenue and profitability, the following trends may continue to affect our business:

(i) During the FYEs 2017 to 2019 and FPE 2020, the majority of our revenue was derived from our manufacturing segment. In view of our plan to further expand our manufacturing segment as stated in Sections 4.9(i)and 7.17, we expect the manufacturing segment to be the key revenue contributor of our Group in the future;

(ii) During the FYEs 2017 to 2019 and FPE 2020, we derived all of our revenue from the domestic market (save for the one-off export order from a customer in Indonesia). As we intend to focus and further expand our presence in the domestic market, we expect Malaysia to continue to be our principal market; and

(iii) The largest component of our cost of sales is steel coils. Moving forward, the cost of steel coils will continue to dominate our cost of sales which is in line with our intention to further expand our manufacturing segment. As the cost of steel coils is dependent on the global steel prices which are affected by factors beyond our control, our cost of sales might fluctuate in tandem with the steel prices.

As at the LPD, after all reasonable enquiries, our Board confirms that our operations have not been and are not expected to be affected by any of the following:

(i) Known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's financial performance, position and operations other than those discussed in Sections 11.2, 11.9, 11.10 and 11.11;

(ii) Material commitments for capital expenditure;

(iii) Unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as discussed in Sections 11.2, 11.9, 11.10 and 11.11;

(iv) Known trends, demands, commitments, events or uncertainties that have resulted in a substantial increase in our Group revenue save for those that had been discussed in Sections 11.2, 11.9, 11.10 and 11.11; and

(v) Known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not necessarily indicative of the future financial performance and position other than those discussed in Sections 11.2, 11.9, 11.10 and 11.11.

Our Board is optimistic about the future prospects of our Group given our Group's competitive strengths as set out in Section 7.16 and the outlook of the metal door frame and door industry in Malaysia as set out in the IMR Report in Section 8.

11.16 DIVIDEND POLICY

As our Company is an investment holding company, our income and therefore our ability to pay dividends is dependent upon the dividends we receive from our subsidiaries, present or future. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, and consent from the financiers of our Group as set out in the respective facility agreements, there are no legal, financial, or economic restrictions on the ability of our existing subsidiary to transfer funds in the form of cash dividends, loans or advances to us. Moving forward, the payment of dividends or other distributions by our subsidiaries will depend on their distributable profits, operating results, financial condition, capital expenditure plans, business expansion plans and other factors that their respective boards of directors deem relevant.

Our Group presently does not have any formal dividend policy, the declaration of dividends are subject to the discretion of our Board. It is our intention to pay dividends to shareholders in the future; however, such payments will depend upon a number of factors, including our Group's financial performance, capital expenditure requirements, general financial condition and any other factors considered relevant by our Board.

Dividends declared by our Group from the FYEs 2017 to 2019 and FPE 2020 are as follows:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FPE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Dividends declared	-	200	(1)5,000	-

Note:

(1) Includes dividend-in-specie of a piece of freehold agriculture land held for investment for RM3.20 million.

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11.17 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness:

(i) Based on the unaudited financial information as at 10 August 2020; and

(ii) After adjusting for the effects of the Acquisitions Public Issue and utilisation of proceeds.

	Econframe	I	II	III
	As at 10 August 2020	After the Acquisitions	After I and Public Issue	After II and utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
Capitalisation				
Shareholders' equity	(617)	31,498	49,698	47,185
Total capitalisation	**(617)**	**31,498**	**49,698**	**47,185**
Indebtedness [(1)]				
Trade facilities	-	-	-	-
Term loans	-	656	656	656
Finance lease liabilities	-	65	65	65
Total indebtedness	-	**721**	**721**	**721**
Total capitalisation and indebtedness	**(617)**	**32,219**	**50,419**	**47,906**
Gearing ratio [(2)]	-	0.02	0.01	0.02

Notes:

(1) All of our indebtedness are secured and guaranteed.

(2) Calculated based on total indebtedness divided by total capitalisation.

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Chartered Accountants (AF 0117)
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7 September 2020

The Board of Directors
Econframe Berhad
No. 1 & 3, Jalan 27A, Kawasan 16
Sungai Rasau Industrial Area
41300 Klang
Selangor Darul Ehsan

Dear Sirs,

Reporting Accountants' opinion on the Combined Financial Statements contained in the Accountants' Report of Econframe Berhad ("Econframe" or the "Company")

Opinion

We have audited the accompanying combined financial statements of the Company and its operating entities as defined in Note 2 to the combined financial statements (collectively known as the "Group"), which comprise of the combined statements of financial position as at 31 August 2017, 31 August 2018, 31 August 2019 and 31 May 2020, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years/period then ended, and notes to the combined financial statements, including a summary of significant accounting policies, as set out on pages 5 to 99.

In our opinion, the accompanying combined financial statements contained in the Accountants' Report give a true and fair view of the combined financial positions of the Group as at 31 August 2017, 31 August 2018, 31 August 2019 and 31 May 2020, and of their financial performance and their cash flows for the financial years/period then ended in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards and paragraph 10.05 of Chapter 10, Part II Division 1: Equity of the Prospectus Guideline as issued by the Securities Commission Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements* section of our report.

bakertilly

ECONFRAME BERHAD
(Incorporated in Malaysia)

Independence and Other Ethical Responsibilities

We are independent of the Group in accordance with the *By-Laws* (*on Professional Ethics, Conduct and Practice*) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Directors for the Combined Financial Statements

The directors of the Group are responsible for the preparation of the combined financial statements contained in the Accountants' Report, so as to give a true and fair view in accordance with the Malaysian Financial Reporting Standards and the International Financial Reporting Standards. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of the combined financial statements of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements of the Group, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Group are responsible for overseeing the Group's financial reporting process.

Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements of the Group as a whole are free from material misstatement, whether due to fraud or error, and to issue a Reporting Accountants' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these combined financial statements.

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

- identify and assess the risks of material misstatement of the combined financial statements of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

ECONFRAME BERHAD
(Incorporated in Malaysia)

Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements (continued)

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Reporting Accountants' report to the related disclosures in the combined financial statements of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Reporting Accountants' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the combined financial statements of the Group, including the disclosures, and whether the combined financial statements of the Group represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the combined financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Other Matters

This report is made solely to the board of directors of the Group and has been prepared solely to comply with the Prospectus Guidelines – Equity issued by the Securities Commission Malaysia and for inclusion in the Prospectus of the Group in connection with the listing and quotation for the entire enlarged issued share capital of the Group on the ACE Market of Bursa Malaysia Securities Berhad and should not be relied upon any other purpose. We do not assume responsibility to any other person for the content of this report.

Baker Tilly Monteiro Heng PLT
201906000600 (LLP0019411-LCA) & AF 0117
Chartered Accountants

Dato' Lock Peng Kuan
No. 02819/10/2020 J
Chartered Accountant

Kuala Lumpur

Date: 7 September 2020

STATEMENT BY DIRECTORS

We, **LIM CHIN HORNG** and **KHOO SOON BENG**, being two of the directors of ECONFRAME BERHAD, do hereby state that in the opinion of the directors, the accompanying combined financial statements are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial positions of the Group as at 31 August 2017, 31 August 2018, 31 August 2019 and 31 May 2020 and of their financial performance and cash flows for the financial years/period then ended.

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

……………………………………………………

LIM CHIN HORNG
Director

……………………………………………………

KHOO SOON BENG
Director

Kuala Lumpur

Date: 7 September 2020

COMBINED STATEMENTS OF FINANCIAL POSITION

		Audited as at			
		31.08.2017	31.08.2018	31.08.2019	31.05.2020
	Note	RM '000	RM '000	RM '000	RM '000
ASSETS					
Non-current assets					
Property, plant and equipment	5	8,230	8,375	9,731	9,744
Investment properties	6	2,550	2,800	324	324
Total non-current assets		**10,780**	**11,175**	**10,055**	**10,068**
Current assets					
Inventories	7	1,893	2,757	2,909	3,747
Current tax assets		-	-	-	205
Trade and other receivables	8	9,927	14,084	15,363	13,484
Cash and short-term deposits	9	1,773	1,900	4,881	5,966
Total current assets		**13,593**	**18,741**	**23,153**	**23,402**
TOTAL ASSETS		**24,373**	**29,916**	**33,208**	**33,470**
EQUITY AND LIABILITIES					
Equity attributable to owners of the Group					
Invested equity	10	1,100	1,100	1,100	1,100
Other reserve	11	2,488	2,849	4,228	4,220
Retained earnings		12,629	17,536	20,681	24,900
TOTAL EQUITY		**16,217**	**21,485**	**26,009**	**30,220**
Non-current liabilities					
Loans and borrowings	12	1,278	827	634	577
Deferred tax liabilities	13	1,148	1,169	1,497	1,435
Total non-current liabilities		**2,426**	**1,996**	**2,131**	**2,012**
Current liabilities					
Loans and borrowings	12	2,932	2,859	1,618	210
Current tax liabilities		723	953	884	-
Trade and other payables	14	2,075	2,623	2,566	1,028
Total current liabilities		**5,730**	**6,435**	**5,068**	**1,238**
TOTAL LIABILITIES		**8,156**	**8,431**	**7,199**	**3,250**
TOTAL EQUITY AND LIABILITIES		**24,373**	**29,916**	**33,208**	**33,470**

The accompanying notes form an integral part of these combined financial statements.

ECONFRAME BERHAD
Accountants' Report

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

		Audited			Audited	Unaudited
		FYE 31 August			FPE 31 May	
		2017	2018	2019	2020	2019
	Note	RM '000	RM '000	RM '000	RM '000	RM '000
Revenue	15	35,494	39,834	44,089	29,977	33,265
Cost of sales		(26,651)	(29,957)	(29,475)	(20,349)	(22,648)
Gross profit		8,843	9,877	14,614	9,628	10,617
Other income	16	195	419	619	162	167
Distribution expenses		(1,156)	(980)	(1,210)	(951)	(919)
Administrative expenses		(3,357)	(2,496)	(3,290)	(3,276)	(2,464)
Operating profit		4,525	6,820	10,733	5,563	7,401
Finance costs	17	(223)	(187)	(126)	(51)	(83)
Profit before tax	18	4,302	6,633	10,607	5,512	7,318
Income tax expense	20	(1,192)	(1,536)	(2,472)	(1,301)	(1,718)
Profit for the financial year/period		**3,110**	**5,097**	**8,135**	**4,211**	**5,600**
Other comprehensive income, net of tax						
Item that will not be reclassified subsequently to profit or loss						
Surplus on revaluation of property, plant and equipment		1,041	371	1,389	-	-
Other comprehensive income for the financial year/period		**1,041**	**371**	**1,389**	**-**	**-**
Total comprehensive income for the financial year/period		**4,151**	**5,468**	**9,524**	**4,211**	**5,600**
Profit attributable to:						
Owners of the Group		**3,110**	**5,097**	**8,135**	**4,211**	**5,600**
Total comprehensive income attributable to:						
Owners of the Group		**4,151**	**5,468**	**9,524**	**4,211**	**5,600**

The accompanying notes form an integral part of these combined financial statements.

ECONFRAME BERHAD
Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Group			
	Invested equity RM '000	Revaluation reserve RM '000	Retained earnings RM '000	Total equity RM '000
At 1 September 2016	**1,100**	**1,454**	**9,512**	**12,066**
Total comprehensive income for the financial year				
Profit for the financial year	-	-	3,110	3,110
Realisation of revaluation reserve	-	(7)	7	-
Other comprehensive income for the financial year	-	1,041	-	1,041
At 31 August 2017	**1,100**	**2,488**	**12,629**	**16,217**
Total comprehensive income for the financial year				
Profit for the financial year	-	-	5,097	5,097
Realisation of revaluation reserve	-	(10)	10	-
Other comprehensive income for the financial year	-	371	-	371
Total comprehensive income	-	361	5,107	5,468
Transaction with owners				
Dividend paid on shares	-	-	(200)	(200)
At 31 August 2018	**1,100**	**2,849**	**17,536**	**21,485**
Total comprehensive income for the financial year				
Profit for the financial year	-	-	8,135	8,135
Realisation of revaluation reserve	-	(10)	10	-
Other comprehensive income for the financial year	-	1,389	-	1,389
Total comprehensive income	-	1,379	8,145	9,524
Transaction with owners				
Dividends paid on shares	-	-	(5,000)	(5,000)
At 31 August 2019	**1,100**	**4,228**	**20,681**	**26,009**
Total comprehensive income for the financial period				
Profit for the financial period	-	-	4,211	4,211
Realisation of revaluation reserve	-	(8)	8	-
Total comprehensive income	-	(8)	4,219	4,211
Transaction with owners				
Issuance of shares at the date of incorporation	*	-	-	*
At 31 May 2020	**1,100**	**4,220**	**24,900**	**30,220**

* RM100

ECONFRAME BERHAD
Accountants' Report

COMBINED STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Attributable to owners of the Group			
	Invested equity RM '000	Revaluation reserve RM '000	Retained earnings RM '000	Total equity RM '000
At 31 August 2018	**1,100**	**2,849**	**17,536**	**21,485**
Total comprehensive income for the financial period				
Profit for the financial period	-	-	5,600	5,600
Realisation of revaluation reserve	-	(8)	8	-
Total comprehensive income	-	(8)	5,608	5,600
Transaction with owners				
Dividends paid on shares	-	-	(300)	(300)
At 31 May 2019	**1,100**	**2,841**	**22,844**	**26,785**

The accompanying notes form an integral part of these combined financial statements.

ECONFRAME BERHAD
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS

		← Audited	FYE 31 August	→	Audited	Unaudited
					FPE 31 May	
		2017	2018	2019	2020	2019
	Note	RM '000	RM '000	RM '000	RM '000	RM '000
Cash flows from operating activities						
Profit before tax:		4,302	6,633	10,607	5,512	7,318
Adjustments for:						
Depreciation of property, plant and equipment		522	445	502	396	356
Bad debts recovered		-	-	(5)	-	(5)
Gain on disposal of property, plant and equipment		(30)	-	-	-	-
Impairment loss on trade receivables		-	-	31	-	31
Impairment loss on property, plant and equipment		-	-	10	-	-
Bad debt written off		-	-	3	-	3
Reversal of impairment loss		-	-	-	(31)	-
Fair value loss/(gain) on investment property		1,050	(250)	(400)	-	-
Interest expenses		223	187	126	51	83
Interest income		(9)	(13)	(21)	(49)	(15)
Operating profit before changes in working capital		**6,058**	**7,002**	**10,853**	**5,879**	**7,771**
Changes in working capital:						
Inventories		(1,624)	(865)	(152)	(838)	(14)
Trade and other receivables		647	(2,861)	(2,605)	1,910	(2,468)
Trade and other payables		(2,462)	1,035	(56)	(1,539)	(315)
Net cash generated from operations		2,619	4,311	8,040	5,412	4,974
Income tax paid		(1,483)	(1,283)	(2,543)	(2,452)	(1,634)
Interest paid		(34)	(12)	(2)	-	(2)
Net cash from operating activities		**1,102**	**3,016**	**5,495**	**2,960**	**3,338**
Cash flows from investing activities						
Purchase of property, plant and equipment	(a)	(215)	(219)	(371)	(358)	(349)
Proceeds from disposal of property, plant and equipment		30	-	-	-	-
Change in pledged deposits		(129)	(133)	(1,141)	(1,172)	(105)
Interest income		9	13	21	49	15
Net cash used in investing activities		**(305)**	**(339)**	**(1,491)**	**(1,481)**	**(439)**

ECONFRAME BERHAD
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

		← Audited	FYE 31 August	→	Audited	Unaudited
					FPE 31 May	
		2017	2018	2019	2020	2019
	Note	RM '000	RM '000	RM '000	RM '000	RM '000
Cash flows from financing activities	(b)					
Interest paid		(189)	(175)	(124)	(51)	(81)
Repayment of term loans		(147)	(190)	(47)	(133)	3
Repayment of finance lease liabilities/lease liabilities		(290)	(280)	(345)	(118)	(215)
Drawdown/(repayment) of bankers' acceptance		349	(519)	(483)	(1,265)	(523)
Net change in amount owing to directors		(54)	(1,784)	1,296	-	(459)
Dividends paid	(c)	-	(200)	(1,800)	-	(300)
Proceeds from issuance of share capital upon incorporation		-	-	-	*	-
Net cash used in financing activities		**(331)**	**(3,148)**	**(1,503)**	**(1,567)**	**(1,575)**
Net increase/(decrease) in cash and cash equivalents		466	(471)	2,501	(88)	1,324
Cash and cash equivalents at the beginning of the financial year/period		681	1,147	676	3,177	676
Cash and cash equivalents at the end of the financial year/period	9	**1,147**	**676**	**3,177**	**3,089**	**2,000**

* RM100

ECONFRAME BERHAD
Accountants' Report

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

(a) Purchase of property, plant and equipment:

		Audited			Audited	Unaudited
		FYE 31 August			FPE 31 May	
		2017	2018	2019	2020	2019
	Note	RM '000	RM '000	RM '000	RM '000	RM '000
Purchase of property, plant and equipment	5	410	219	471	390	449
Financed by way of finance lease arrangements		(195)	-	(100)	-	(100)
Operating leases recognised as right-of-use assets		-	-	-	(32)	-
Cash payments on purchase of property, plant and equipment		215	219	371	358	349

(b) Changes in liabilities arising from financing activities comprise of net changes in loans and borrowings, amount owing to directors and dividends paid during the financial years/period. There were no non-cash changes in liabilities arising from financing activities.

(c) Dividends paid:

		Audited			Audited	Unaudited
		FYE 31 August			FPE 31 May	
		2017	2018	2019	2020	2019
	Note	RM '000	RM '000	RM '000	RM '000	RM '000
Dividends declared	21	-	200	5,000	-	300
Dividend in specie		-	-	(3,200)	-	-
Cash payments on dividends		-	200	1,800	-	300

The accompanying notes form an integral part of these combined financial statements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated on 27 November 2019 under Companies Act 2016, as a private limited liability company, and is domiciled in Malaysia. The Company was converted to a public company limited by shares and assumed its present name on 21 February 2020. The registered office of the Company is located at Level 7, Menara Milenium, Jalan Damanlela, Pusat Bandar Damansara, 50490 Kuala Lumpur. The principal place of business of the Company is located at No. 1 & 3, Jalan 27A, Kawasan 16, Sungai Rasau Industrial Area, 41300 Klang, Selangor.

The principal activity of the Company is investment holding. The details of the combined entities are as follows:

Combined entities	Principal place of business/ country of incorporation	Principal activities
Econframe Marketing Sdn. Bhd.	Malaysia	Manufacturing and sales of doors, door and window frames and trading of ironmongery
Econframe Pre-Hung Doors Sdn. Bhd.	Malaysia	Trading of doors

There have been no significant changes in the nature of these principal activities during the financial years/period under review.

The combined financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 7 September 2020.

ECONFRAME BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION

The combined financial statements of the Company (as defined herein) for the financial years ended ("FYE") 31 August 2017, 31 August 2018 and 31 August 2019 and financial periods ended ("FPE") 31 May 2019 and 31 May 2020 have been prepared pursuant to the listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad which consist of the financial statements of the following entities under common control for each of the financial years/periods.

	FYE 31 August			FPE 31 May	
Entities Under Common Control	**2017**	**2018**	**2019**	**2019**	**2020**
Econframe	*	*	*	*	√, ^
Econframe Marketing Sdn. Bhd.	√, @	√, @	√, ^	#	√, ^
Econframe Pre-Hung Doors Sdn. Bhd.	√, @	√, @	√, ^	#	√, ^

* *No financial statements were available for Econframe as the Company was incorporated on 27 November 2019.*

√ *The combined financial statements of the Group include the financial statements of these combining entities for the respective financial years/periods.*

^ *The combined financial statements of the Group for the respective financial years/periods have been prepared based on the audited financial statements which were audited by Baker Tilly Monteiro Heng PLT.*

@ *The combined financial statements of the Group for the respective financial years have been prepared based on the financial statements which were audited by Baker Tilly Monteiro Heng PLT for the purpose of inclusion into the combined financial statements of the Group. The audited financial statements which were lodged with Companies Commission of Malaysia were audited by a firm of chartered accountants other than Baker Tilly Monteiro Heng PLT.*

\# *The combined financial statements which includes combined statements of comprehensive income, combined statements of changes in equity, combined statements of cash flows and notes to the combined financial statements were prepared based on the financial statements of these operating entities.*

The combined financial statements of the Group for the relevant periods were prepared in a manner as if the entities under common control were operating as a single economic enterprise from the beginning of the earliest comparative period covered by the relevant period or the dates of incorporation of the entities within the Group, if later.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

Entities under common control are entities which are ultimately controlled by the same parties and that control is not transitory ("commonly controlled entities"). Control exists when the same parties have, as a result of contractual agreements, ultimate collective power to govern the financial and operating policies of each of the commonly controlled entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory. The financial statements of commonly controlled entities are included in the combined financial statements from the day that control commences until the date that control ceases.

The financial information presented in the combined financial statements may not correspond to those in the combined financial statements of the Group had the relevant proposed transactions to legally constitute a group been incorporated in the consolidated financial statements for the respective financial years. Such financial information in the combined financial statements does not purport to predict the financial position, results and the cash flows of the entities under common control for those financial years/periods.

The combined financial statements are prepared under the historical cost convention except otherwise indicated in the summary of significant accounting policies.

The accounting policies applied by the Group are consistently applied for all the financial years/periods presented in these combined financial statements.

2.1 Statement of compliance

The combined financial statements of the Group have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs").

2.2 Adoption of new MFRS, amendments/improvements to MFRSs and new IC Interpretation ("IC Int")

The Group has adopted the following new MFRS, amendments/improvements to MFRSs and new IC Int that are mandatory for the current financial period:

New MFRS	
MFRS 16	Leases

Amendments/Improvements to MFRSs	
MFRS 3	Business Combinations
MFRS 9	Financial Instruments
MFRS 11	Joint Arrangements
MFRS 112	Income Taxes
MFRS 119	Employee Benefits
MFRS 123	Borrowing Costs
MFRS 128	Investments in Associates and Joint Ventures

New IC Int	
IC Int 23	Uncertainty Over Income Tax Treatments

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.2 Adoption of new MFRS, amendments/improvements to MFRSs and new IC Int (continued)

The adoption of the above new MFRS, amendments/improvements to MFRSs and new IC Int did not have any significant effect on the combined financial statements of the Group, and did not result in significant changes to the Group's existing accounting policies, except for those as discussed below.

MFRS 16 Leases

Effective 1 January 2019, MFRS 16 has replaced MFRS 117 Leases and IC Int 4 Determining whether an Arrangement contains a Lease.

Under MFRS 117, leases are classified either as finance leases or operating leases. A lessee recognises on its statement of financial position assets and liabilities arising from finance leases. For operating leases, lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

MFRS 16 eliminates the distinction between finance and operating leases for lessees. Instead, all leases are brought onto the statements of financial position except for short-term and low value asset leases.

The Group has applied MFRS 16 using the modified retrospective approach with any cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings at the date of initial application (i.e. 1 September 2019). As such, the comparative information was not restated and continues to be reported under MFRS 117 and IC Int 4.

Definition of a lease

MFRS 16 changes the definition of a lease mainly to the concept of control. MFRS 16 defines that a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group has elected the practical expedient not to reassess whether a contract contains a lease at the date of initial application. Accordingly, the definition of a lease under MFRS 16 was applied only to contracts entered or changed on or after 1 September 2019. Existing lease contracts that are still effective on 1 September 2019 will be accounted for as lease contracts under MFRS 16.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.2 Adoption of new MFRS, amendments/improvements to MFRSs and new IC Int (continued)

MFRS 16 Leases (continued)

Impact of the adoption of MFRS 16

The application of MFRS 16 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements as at the date of initial application. Other than the enhanced new disclosures relating to leases, which the Group has complied with in the current financial period, the application of this standard does not have any significant effect on the financial statements of the Group, except for those as discussed below.

(i) Classification and measurement

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Group.

On adoption of MFRS 16, for all its leases other than short-term and low value asset leases, the Group:

- recognised the right-of-use assets and lease liabilities in the statement of financial position as at the date of initial application;
- recognised depreciation of right-of-use assets and interest on lease liabilities in profit or loss for the current financial period; and
- separated the total amount of cash paid for leases into principal and interest portions (presented within financing activities) in the statement of cash flows for the current financial period.

<u>*For leases that were classified as operating lease under MFRS 117*</u>

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application.

The right-of-use assets were measured at either:

(a) their carrying amount as if MFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application. The Group applied this approach to its largest property leases; or

(b) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all other leases.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.2 Adoption of new MFRS, amendments/improvements to MFRSs and new IC Int (continued)

MFRS 16 Leases (continued)

Impact of the adoption of MFRS 16 (continued)

(i) Classification and measurement (continued)

For leases that were classified as operating lease under MFRS 117 (continued)

The Group also applied the following practical expedients wherein it:
(a) applied a single discount rate to a portfolio of leases with similar characteristics;
(b) adjusted the right-of-use assets by the amount of MFRS 137 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review;
(c) applied the exemption not to recognise right-to-use assets and liabilities for leases which the lease term ends within 12 months of the date of initial application;
(d) excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
(e) used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance lease under MFRS 117

The Group recognised the carrying amount of the lease assets and finance lease liabilities under MFRS 117 immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application. The measurement requirements of MFRS 16 are applied after that date.

(ii) Short-term lease and low value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets based on the value of the underlying asset when new, such as office equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.2 Adoption of new MFRS, amendments/improvements to MFRSs and new IC Int (continued)

MFRS 16 Leases (continued)

Impact of the adoption of MFRS 16 (continued)

The effects of adoption of MFRS 16 as at 1 September 2019 are as follows:

	Adjustments	Increase RM '000
Assets		
Non-current assets		
Property, plant and equipment	(i)	19
Total non-current assets		**19**
Total assets		**19**
Non-current liabilities		
Loans and borrowings	(i)	9
Total non-current liabilities		**9**
Current liabilities		
Loans and borrowings	(i)	10
Total current liabilities		**10**
Total liabilities		**19**

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 September 2019 is 4.26%.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.3 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective

The Group has not adopted the following new MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective:

		Effective for financial periods beginning on or after
New MFRS		
MFRS 17	Insurance Contracts	1 January 2023
Amendments/Improvements to MFRSs		
MFRS 1	First-time Adoption of MFRSs	1 January 2022^/ 1 January 2023#
MFRS 3	Business Combinations	1 January 2020/ 1 January 2022/ 1 January 2023#
MFRS 5	Non-current Assets Held for Sale and Discontinued Operation	1 January 2023#
MFRS 7	Financial Instruments: Disclosures	1 January 2020/ 1 January 2023#
MFRS 9	Financial Instruments	1 January 2020/ 1 January 2022^/ 1 January 2023#
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 15	Revenue from Contracts with Customers	1 January 2023#
MFRS 16	Leases	1 June 2020*/ 1 January 2022^
MFRS 101	Presentation of Financial Statements	1 January 2020/ 1 January 2023/ 1 January 2023#
MFRS 107	Statements of Cash Flows	1 January 2023#
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Error	1 January 2020
MFRS 116	Property, Plant and Equipment	1 January 2022/ 1 January 2023#
MFRS 119	Employee Benefits	1 January 2023#
MFRS 128	Investments in Associates and Joint Ventures	Deferred/ 1 January 2023#
MFRS 132	Financial Instruments: Presentation	1 January 2023#

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.3 New MFRS and amendments/improvements to MFRSs have been issued, but yet to be effective (continued)

		Effective for financial periods beginning on or after
Amendments/Improvements to MFRSs (continued)		
MFRS 136	Impairment of Assets	1 January 2023#
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2022/ 1 January 2023#
MFRS 138	Intangible Assets	1 January 2023#
MFRS 139	Financial Instruments: Recognition and Measurement	1 January 2020
MFRS 140	Investment Property	1 January 2023#
MFRS 141	Agriculture	1 January 2022^

^ *The Annual Improvements to MFRSs 2018-2022*
* *Earlier application is permitted, including in financial statements not authorised for issue at 28 May 2020*
# *Amendments as to the consequence of effective of MFRS 17 Insurance Contracts*

2.3.1 The Group plans to adopt the above applicable new MFRS and amendments/ improvements to MFRSs they become effective. A brief discussion on the above significant new MFRS and amendments/improvements to MFRSs are summarised below.

Annual Improvements to MFRSs 2018-2020

Annual Improvements to MFRSs 2018-2020 covers amendments to:

- MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* – simplifies the application of MFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences.
- MFRS 9 *Financial Instruments* – clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.
- Illustrative Examples accompanying MFRS 16 *Leases* – deletes from Illustrative Example 13 the reimbursement relating to leasehold improvements in order to remove any potential confusion regarding the treatment of lease incentives.
- MFRS 141 *Agriculture* – removes a requirement to exclude cash flows from taxation when measuring fair value thereby aligning the fair value measurement requirements in MFRS 141 with those in other MFRSs.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.3 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (continued)

Amendments to MFRS 3 Business Combinations

The amendments clarify the definition of a business with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The distinction is important because an acquirer does not recognise goodwill in an asset acquisition.

The amendments, amongst others, clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments also add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments also update by replacing a reference to an old version of the *Conceptual Framework for Financial Reporting* with a reference to the latest version which was issued by MASB in April 2018.

Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investment in Associates and Joint Ventures

These amendments address an acknowledged inconsistency between the requirements in MFRS 10 and those in MFRS 128, in dealing with sale or contribution of assets between an investor and its associate or joint venture.

The main consequence of the amendments is that a full gain or loss recognised when a transaction involves a business, as defined in MFRS 3. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business.

Amendments to MFRS 9 Financial Instruments, MFRS 139 Financial Instruments: Recognition and Measurement and MFRS 7 Financial Instruments: Disclosures

The Malaysian Accounting Standards Board has issued *Interest Rate Benchmark Reform* (Amendments to MFRS 9, MFRS 139 and MFRS 7).

The *Interest Rate Benchmark Reform* amends some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the interbank offered rates reform. In applying the amendments, companies would continue to apply those hedge accounting requirements assuming that the interest rate benchmark associated with the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.3 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (continued)

Amendments to MFRS 9 Financial Instruments, MFRS 139 Financial Instruments: Recognition and Measurement and MFRS 7 Financial Instruments: Disclosures (continued)

Applying the amendments, entities are not required to apply the MFRS 139 retrospective assessment but continue to apply hedge accounting to a hedging relationship for which effectiveness is outside of the 80% - 125% range during the period of uncertainty arising from the reform.

Amendment to MFRS 16 Leases

The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the Coronavirus ("COVID-19") pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before 30 June 2021.

Amendments to MFRS 101 Presentation of Financial Statements and MFRS 108 Accounting Policies, Changes in Accounting Estimates and Error

The amendments refine the definition by including 'obscuring information' in the definition of material to respond to concerns that the effect of including immaterial information should not reduce the understandability of a company's financial statements. The prior definition focuses only on information that cannot be omitted (material information) and does not also consider the effect of including immaterial information.

Other refinements to the definition include incorporating some existing wording in MFRS 101 and the *Conceptual Framework for Financial Reporting*. Consequently, the amendments align the definition of material across MFRSs and other publications.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.3 New MFRS and amendments/improvements to MFRSs that have been issued, but yet to be effective (continued)

Amendments to MFRS 101 Presentation of Financial Statements

The amendments include specifying that an entity's right to defer settlement of a liability for at least twelve months after the reporting period must have substance and must exist at the end of the reporting period; clarifying that classification of liability is unaffected by the likelihood of the entity to exercise its right to defer settlement of the liability for at least twelve months after the reporting period; clarifying how lending conditions affect classification of a liability; and clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

Amendments to MFRS 116 Property, Plant and Equipment

The amendments prohibit an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while an entity is preparing the asset for its intended use. Instead, an entity shall recognise such sales proceeds and related cost in profit or loss.

Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous.

2.4 Functional and presentation currency

The individual financial statements of each entity in the Group are measured using the currency of the primary economic environment in which they operate (the "functional currency"). The combined financial statements are presented in Ringgit Malaysia ("RM"), which is also the Group's functional currency, unless stated otherwise.

2.5 Basis of measurement

The combined financial statements of the Group have been prepared on the historical cost basis, except as otherwise disclosed in Note 3.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.6 Use of estimates and judgement

The preparation of combined financial statements in conformity with MFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenue and expenses during the reporting period. It also requires directors to exercise their judgement in the process of applying the Group's accounting policies. Although these estimates and judgement are based on the directors' best knowledge of current events and actions, actual results may differ.

The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates that are significant to the Group's combined financial statements are disclosed in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been applied consistently to all the financial years/periods presented in the combined financial statements of the Group.

3.1 Basis of combination

The combined financial statements comprise the financial statements of Econframe Berhad, Econframe Marketing Sdn. Bhd. and Econframe Pre-Hung Doors Sdn. Bhd.. The financial statements used in the preparation of the combined financial statements are prepared for the same reporting date as Econframe. Consistent accounting policies are applied to like transactions and events in similar circumstances.

Entities under a reorganisation does not result in any change in economic substance. Accordingly, the combined financial statements of the Group is a continuation of the Group and is accounted for as follows:

- the assets and liabilities of the acquired entity is recognised and measured in the combined financial statements at the pre-combination carrying amounts, without restatement to fair value;
- the retained earnings, and other equity balances of acquired entity immediately before the business combination are those of the Group; and
- the equity structure, however, reflects the equity structure of the Group and the differences arising from the change in equity structure of the Group will be accounted for in other reserves.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of combination (continued)

(a) Business combination

The Group applies the merger method of accounting.

A business combination involving entities under common control is a business combination in which all the combining entities are ultimately controlled by the same party and parties both before and after the business combination, and that control is not transitory. Combining entities acquired which have met the criteria for pooling of interest are accounted for using merger accounting policies. Under the merger method of accounting, the results of combining entities are presented as if the business combination had been affected throughout the current and previous financial years. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On combination, the difference between the costs of acquisition over the nominal value of share capital of the combining entities is taken to reorganisation reserve or merger deficit.

(b) Transactions eliminated on combination

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the combined financial statements.

3.2 Foreign currency transactions

Translation of foreign currency transactions

Foreign currency transactions are translated to the presentation functional currencies of the Group using the exchange rates prevailing at the transaction dates.

At the end of each reporting date, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at the reporting date.

Non-monetary items denominated in foreign currencies that are measured at fair value are retranslated at the rates prevailing at the dates the fair values were determined. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated at the historical rates as at the dates of the initial transactions.

Foreign exchange differences arising on settlement or retranslation of monetary items are recognised in profit or loss except for monetary items that are designated as hedging instruments in either a cash flow hedge or a hedge of the Group's net investment of a foreign operation.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Foreign currency transactions (continued)

Translation of foreign currency transactions (continued)

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

3.3 Financial instruments

Financial instruments are recognised in the combined statement of financial position when, and only when, the Group becomes a party to the contract provisions of the financial instrument.

Accounting policies applied from 1 September 2018

Except for the trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the financial instruments are recognised initially at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset and financial liability. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under MFRS 15.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract; it is a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured as fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

Accounting policies applied from 1 September 2018 (continued)

(a) Subsequent measurement

The Group categorises the financial instruments as follows:

(i) Financial assets

For the purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost
- Financial assets at fair value through other comprehensive income with recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

The classification depends on the entity's business model for managing the financial assets and the contractual cash flows characteristics of the financial assets.

The Group reclassifies financial assets when and only when its business models for managing those assets change.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost**
  Financial assets that are held for collection of contractual cash flows and those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. The policy for the recognition and measurement of impairment in accordance with Note 3.9(a). Gains and losses are recognised in profit or loss when the financial asset is derecognised, modified or impaired.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

Accounting policies applied from 1 September 2018 (continued)

(a) Subsequent measurement (continued)

(i) Financial assets (continued)

Debt instruments (continued)

- **Fair value through other comprehensive income (FVOCI)**
  Financial assets that are held for collection of contractual cash flows and for selling the financial assets, and the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

- **Fair value through profit or loss (FVPL)**
  Financial assets at FVPL include financial assets held for trading, financial assets designated upon initial recognition at FVPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

  Financial assets at FVPL are carried in the combined statements of financial position at fair value with net changes in fair value recognised in the profit or loss.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

Accounting policies applied from 1 September 2018 (continued)

(a) Subsequent measurement (continued)

(i) Financial assets (continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Upon initial recognition, the Group can make an irrevocable election to classify its equity investments that is not held for trading as equity instruments designated at FVOCI. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are not recycled to profit or loss. Dividends are recognised as other income in the profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity instruments designated at FVOCI are not subject to impairment assessment.

(ii) Financial liabilities

The Group classifies its financial liabilities in the following measurement categories:

- Financial liabilities at FVPL
- Financial liabilities at amortised cost

Financial liabilities at FVPL

Financial liabilities at FVPL include financial liabilities held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or financial liabilities designated into this category upon initial recognition.

Subsequent to initial recognition, financial liabilities at FVPL are measured at fair value with the gain or loss recognised in profit or loss.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

Accounting policies applied from 1 September 2018 (continued)

(a) Subsequent measurement (continued)

(ii) Financial liabilities (continued)

Financial liabilities at FVPL (continued)

Financial liabilities designated upon initial recognition at FVPL are designated at the initial date of recognition, and only if the criteria in MFRS 9 are satisfied. The Group has not designated any financial liability as at FVPL.

Financial liabilities at amortised cost

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

(b) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the amount of the loss allowance determined in accordance with Section 5.5 of MFRS 9 and the amount initially recognised, when appropriate, the cumulative amount of income recognised in accordance with the principles of MFRS 15.

(c) Regular way purchase or sale of financial assets

A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

Accounting policies applied from 1 September 2018 (continued)

(c) Regular way purchase or sale of financial assets (continued)

A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting (i.e. the date the Group commits itself to purchase or sell an asset).

Trade date accounting refers to:
(i) the recognition of an asset to be received and the liability to pay for it on the trade date; and
(ii) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Generally, interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes.

(d) Derecognition

A financial asset or a part of it is derecognised when, and only when:

(i) the contractual rights to receive cash flows from the financial asset expire; or
(ii) the Group has transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

The Group evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

Accounting policies applied from 1 September 2018 (continued)

(d) Derecognition (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

On derecognition of a financial asset, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(e) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the combined statements of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability.

(f) Derivatives

The Group uses interest swap contracts to hedge the exposure of floating interest rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the profit or loss.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

Accounting policies applied until 31 August 2018

Financial instruments are recognised initially at fair value, except for financial instruments not measured at FVPL, they are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial instruments.

An embedded derivative is recognised separately from the host contract and accounted for as a derivative if, and only if, it is not closely related to the economic characteristics and risks of the host contract and the host contract is not categorised as FVPL. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with the policy applicable to the nature of the host contract.

(a) Subsequent measurement

The Group categorises the financial instruments as follows:

(i) Financial assets

Financial assets at FVPL

Financial assets are classified as financial assets at FVPL when the financial assets are either held for trading, including derivatives (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument) or are designated into this category upon initial recognition.

Subsequent to initial recognition, financial assets at FVPL are measured at fair value with the gain or loss recognised in profit or loss.

Derivatives that are linked to and must be settled by delivery of unquoted equity instruments whose fair values cannot be reliably measured are measured at costs.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

Accounting policies applied until 31 August 2018 (continued)

(a) Subsequent measurement (continued)

The Group categorises the financial instruments as follows (continued):

(i) Financial assets (continued)

Loans and receivables

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

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.9(a). Gains and losses are recognised in profit or loss through the amortisation process.

Held-to-maturity investments

Financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity.

Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.9(a). Gains and losses are recognised in profit or loss through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets comprise investments in equity and debt securities that are designated as available-for-sale or are not classified in any of the three preceding categories.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

Accounting policies applied until 31 August 2018 (continued)

(a) Subsequent measurement (continued)

The Group categorises the financial instruments as follows (continued):

(i) Financial assets (continued)

Available-for-sale financial assets (continued)

Subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses arising from monetary items and gains and losses of hedged items attributable to hedge risks of fair values hedges which are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Interest income calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the Group's right to receive payment is established.

Unquoted equity instruments carried at cost

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less accumulated impairment losses, if any. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.9(a).

(ii) Financial liabilities

Same accounting policies applied until 31 August 2018 and from 1 September 2018.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

Accounting policies applied until 31 August 2018 (continued)

(b) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are recognised initially as a liability at fair value, net of transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognised less cumulative amortisation.

(c) Regular way purchase or sale of financial assets

Same accounting policies applied until 31 August 2018 and from 1 September 2018.

(d) Derecognition

A financial asset or a part of it is derecognised when, and only when, the contractual rights to receive the cash flows from the financial asset expire or control of the asset is not retained or substantially all the risks and rewards of ownership of the financial asset are transferred to another party. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(e) Offsetting of financial instruments

Same accounting policies applied until 31 August 2018 and from 1 September 2018.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Financial instruments (continued)

Accounting policies applied until 31 August 2018 (continued)

(f) Derivatives

Same accounting policies applied until 31 August 2018 and from 1 September 2018.

3.4 Property, plant and equipment

(a) Recognition and measurement

Land and buildings are measured using the revaluation approach. The revaluation is done on a yearly basis. All other items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.9(b).

Cost of assets includes expenditures that are directly attributable to the acquisition of the asset and any other costs that are directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes cost of materials, direct labour, and any other direct attributable costs but excludes internal profits.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss as incurred.

(c) Depreciation

Freehold land has unlimited useful life and therefore is not depreciated. Assets under construction included in property, plant and equipment are not depreciated as these assets are not yet available for use.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Property, plant and equipment (continued)

(c) Depreciation (continued)

All other property, plant and equipment are depreciated on straight-line basis by allocating their depreciable amounts over their remaining useful lives.

	Useful lives (years)
Freehold buildings	50 years
Plant and machineries	10 years
Motor vehicles	5 years
Furniture and fittings	10 years
Office equipment	10 years
Computer hardware and software	5 years
Renovation	10 years

The residual values, useful lives and depreciation methods are reviewed at the end of each reporting period and adjusted as appropriate.

(d) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is recognised in profit or loss.

3.5 Leases

(a) Definition of a lease

Accounting policies applied from 1 September 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset;
- the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases (continued)

(a) Definition of a lease (continued)

Accounting policies applied until 31 August 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases that do not meet this criteria are classified as operating leases.

(b) Lessee accounting

Accounting policies applied from 1 September 2019

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

The Group presents right-of-use assets and lease liabilities as separate lines in the statement of financial position.

Right-of-use asset

The right-of-use asset is initially recognised at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liabilities. The right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If the Group expects to exercise a purchase option, the right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts from the commencement date of the underlying asset. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.9(b).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases (continued)

(b) Lessee accounting (continued)

Accounting policies applied from 1 September 2019 (continued)

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option, if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases (continued)

(b) Lessee accounting (continued)

Accounting policies applied from 1 September 2019 (continued)

Lease liability (continued)

Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "administrative expenses" in the statement of comprehensive income.

The Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Short-term leases and leases of low value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low value assets. The Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Accounting policies applied until 31 August 2019

If the Group is a lessee in a finance lease, it capitalises the leased asset and recognises the related liability. The amount recognised at the inception date is the fair value of the underlying leased asset or, if lower, the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the effective interest method. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are charged as expenses in the periods in which they are incurred.

The capitalised leased asset is classified by nature as property, plant and equipment or investment property.

For operating leases, the Group does not capitalise the leased asset or recognise the related liability. Instead lease payments under an operating lease are recognised as an expense on the straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Leases (continued)

(c) Lessor accounting

Accounting policies applied from 1 September 2019

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases that do not meet this criterion are classified as operating leases.

When the Group is an intermediate lessors, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the exemption described in Note 3.5(a), then it classifies the sub-lease as an operating lease.

If an entity in the Group is a lessor in a finance lease, it derecognises the underlying asset and recognises a lease receivable at an amount equal to the net investment in the lease. Finance income is recognised in profit or loss based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

If an entity in the Group is a lessor in an operating lease, the underlying asset is not derecognised but is presented in the statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

When a contract includes lease and non-lease components, the Group applies MFRS 15 to allocate the consideration under the contract to each component.

Accounting policies applied until 31 August 2019

If an entity in the Group is a lessor in a finance lease, it derecognises the underlying asset and recognises a lease receivable at an amount equal to the net investment in the lease. Finance income is recognised in profit or loss based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

If an entity in the Group is a lessor in an operating lease, the underlying asset is not derecognised but is presented in the combined statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Investment properties

Investment properties are properties held to earn rental income or for capital appreciation or both.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair values of investment properties are recognised in profit or loss for the period in which they arise.

Cost includes purchase price and any directly attributable costs incurred to bring the property to its present location and condition intended for use as an investment property.

An investment property is derecognised on their disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gains and losses arising from derecognition of the asset is recognised in the profit or loss.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property carried at fair value to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. For a transfer from owner-occupied property to investment property, any difference arising on the date of change in use between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity as a revaluation of property, plant and equipment.

3.7 Inventories

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

Costs incurred in bringing the inventories to their present location and condition are accounted for as follows:
- raw materials: purchase costs on a first-in first-out basis.

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

3.8 Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand, bank balance, deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change of value. For the purpose of combined statements of cash flows, cash and cash equivalents are presented net of bank overdrafts and short-term deposits pledged to financial institutions.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment of assets

(a) Impairment of financial assets

Accounting policies applied from 1 September 2018

Financial assets measured at amortised cost, financial assets measured at FVOCI, lease receivables or a loan commitment and financial guarantee contracts will be subject to the impairment requirement in MFRS 9 which is related to the accounting for expected credit losses on the financial assets. Expected credit loss is the weighted average of credit losses with the respective risks of a default occurring as the weights.

The Group measures loss allowance at an amount equal to lifetime expected credit loss, except for the following, which are measured as 12-month expected credit loss:

* debt securities that are determined to have low credit risk at the reporting date; and
* other debt securities and bank balances for which credit risk (i.e. risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

For trade receivables, the Group applies the simplified approach permitted by MFRS 9 to measure the loss allowance at an amount equal to lifetime expected credit losses.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 120 days past due.

The Group considers a financial asset to be in default when:

* the borrower is unable to pay its credit obligations to the Group in full, without taking into account any credit enhancements held by the Group; or
* the contractual payment of the financial asset is more than 120 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment of assets (continued)

(a) Impairment of financial assets (continued)

Accounting policies applied from 1 September 2018 (continued)

12-month expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

Expected credit losses are discounted at the effective interest rate of the financial assets.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

* significant financial difficulty of the issuer or the borrower;
* a breach of contract, such as a default of past due event;
* the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
* it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
* the disappearance of an active market for that financial asset because of financial difficulties; or
* the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The amount of impairment losses (or reversal) shall be recognised in profit or loss, as an impairment gain or loss. For financial assets measured at FVOCI, the loss allowance shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment of assets (continued)

(a) Impairment of financial assets (continued)

Accounting policies applied from 1 September 2018 (continued)

The gross carrying amount of a financial asset is written off (either partially or fully) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or source of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedure for recovery of amounts due.

Accounting policies applied until 31 August 2018

At each reporting date, all financial assets (except for financial assets categorised at FVPL) are assessed whether there is any objective evidence of impairment as a result of one or more events having an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable date indicates that there is a measureable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults

Loans and receivables and held-to-maturity investments

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence for impairment exists for an individually assessed financial asset, whether significant or not, the Group may include the financial asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Financial assets that are individually assessed for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

The amount of impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account and the loss is recognised in profit or loss.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment of assets (continued)

(a) Impairment of financial assets (continued)

Accounting policies applied until 31 August 2018 (continued)

Loans and receivables and held-to-maturity investments (continued)

If, in a subsequent period, the amount of the impairment loss decreases due to an event occurring after the impairment that was recognised, the previously recognised impairment loss is then reversed by adjusting an allowance account to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If a write-off is later recovered, the recovery is credited to the profit or loss.

Available-for-sale financial assets

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment. The Group uses its judgement to determine what is considered as significant or prolonged decline, evaluating past volatility experiences and current market conditions.

Where there is objective evidence that the asset is impaired, the decline in the fair value of an available-for-sale financial asset together with the cumulative loss recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognised. The amount of cumulative loss that is reclassified from equity to profit or loss shall be the difference between its cost (net of any principal repayment and amortisation) and it current fair value, less any impairment loss previously recognised in profit or loss.

Impairment losses on available-for-sale equity investments are not reversed through profit or loss in the subsequent periods. Increase in fair value, if any, subsequent to impairment loss, is recognised in other comprehensive income.

For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to a loss event occurring after the recognition of the impairment loss in profit or loss.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment of assets (continued)

(a) Impairment of financial assets (continued)

Accounting policies applied until 31 August 2018 (continued)

Unquoted equity instruments carried at cost

In the case of unquoted equity instruments carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(b) Impairment of non-financial assets

The carrying amounts of non-financial assets (except for inventories, deferred tax assets and investment properties measured at fair value) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the Group makes an estimate of the asset's recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of non-financial assets or cash-generating units ("CGUs").

The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Where the carrying amount of an asset exceed its recoverable amount, the carrying amount of asset is reduced to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit or groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss, except for assets that were previously revalued with the revaluation surplus recognised in other comprehensive income. In the latter case, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment of assets (continued)

(b) Impairment of non-financial assets (continued)

For other assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. An impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. Reversal of impairment loss is restricted by the asset's carrying amount that would have been determined had no impairment loss been recognised for the asset in the prior years. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

3.10 Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

3.11 Employee benefits

(a) Short-term employee benefits

Short-term employee benefit obligations in respect of wages, salaries, social security contributions, annual bonuses, paid annual leave, sick leave and non-monetary benefits are recognised as an expense in the financial year where the employees have rendered their services to the Group.

(b) Defined contribution plans

As required by law, the Group contributes to the Employees Provident Fund ("EPF"), the national defined contribution plan. Such contributions are recognised as an expense in the profit or loss in the period in which the employees render their services.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Revenue and other income

Accounting policies applied from 1 September 2018

The Group recognises revenue that depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue recognition of the Group is applied for each contract with a customer or a combination of contracts with the same customer (or related parties of the customer). For practical expedient, the Group applied revenue recognition to a portfolio of contracts (or performance obligations) with similar characteristics if the Group reasonably expect that the effects on the combined financial statements would not differ materiality from recognising revenue on the individual contracts (or performance obligations) within that portfolio.

Revenue from sale of goods are recognised at a point in time when control of the products has been transferred, being when the customer accepts the delivery of the goods.

A receivable is recognised when the customer accepts the delivery of the goods as the consideration is unconditional other than the passage of time before the payment is due.

The Group measures revenue from sale of good at its transaction price, being the amount of consideration to which the Group expects to be entitled in exchange for transferring promised good or service to a customer, excluding amounts collected on behalf of third parties such as sales and services tax, adjusted for the effects of any variable consideration, constraining estimates of variable consideration, significant financing components, non-cash consideration and consideration payable to customer. If the transaction price includes variable consideration, the Group uses the expected value method by estimating the sum of probability-weighted amounts in a range or possible consideration amounts, or the most likely outcome method, depending on which method the Group expects to better predict the amount of consideration to which it is entitled.

For contract with separate performance obligations, the transaction price is allocated to the separate performance obligations on the relative stand-alone selling price basis. If the stand-alone selling price is not directly observable, the Company estimates it by using the costs plus margin approach.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Revenue and other income (continued)

Accounting policies applied from 1 September 2018 (continued)

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with customer, i.e. when or as a performance obligation in the contract with customer is satisfied. A performance obligation is satisfied when or as the customer obtains control of the good or service underlying the particular performance obligation, which the performance obligation may be satisfied at a point in time or over time.

(a) Sale of goods

The Group manufactures and sells building material and hardware. Revenue from sale of manufactured goods are recognised at the point in time when control of the products has been transferred, being when the customer accepts the delivery of the goods.

Sales are made with credit term of 30 to 120 days, which is consistent with market practice, therefore, no element of financing is deemed present. A receivable is recognised when the customer accepts the delivery of the goods as the consideration is unconditional other the passage of time before the payment is due.

(b) Interest income

Interest income is recognised using the effective interest method.

(c) Rental income

Rental income is recognised on an accrual basis.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12 Revenue and other income (continued)

Accounting policies applied until 31 August 2018

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and revenue can be reliably measured. Revenue is measured at fair value of the consideration received or receivable, net of discounts, rebates, returns and taxes.

(a) Sale of goods

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) Interest income

Same accounting policies applied until 31 August 2018 and from 1 September 2018.

(c) Rental income

Same accounting policies applied until 31 August 2018 and from 1 September 2018.

3.13 Borrowing costs

Borrowing costs are interests and other costs that the Group incurs in connection with borrowing of funds.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

The Group begins capitalising borrowing costs when the Group has incurred the expenditures for the asset, incurred related borrowing costs and undertaken activities that are necessary to prepare the asset for its intended use or sale.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Income tax

Income tax expense in profit or loss comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

(a) Current tax

Current tax is the expected taxes payable or receivable on the taxable income or loss for the financial year, using the tax rates that have been enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

(b) Deferred tax

Deferred tax is recognised using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unutilised tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

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

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

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle their income tax recoverable and income tax payable on a net basis or their tax assets and liabilities will be realised simultaneously.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

3.16 Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For a non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3.17 Contingencies

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

Contingent liability is also referred as a present obligation that arises from past events but is not recognised because:
(a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
(b) the amount of the obligation cannot be measured with sufficient reliability.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have significant effect in determining the amount recognised in the financial years/periods include the following:

4.1 Depreciation and useful lives of property, plant and equipment

As disclosed in Note 3.4(c), the Group reviews the residual values, useful lives and depreciation methods at the end of each reporting period. Estimates are applied in the selection of the depreciation method, the useful lives and the residual values. The actual consumption of the economic benefits of the property, plant and equipment may differ from the estimates applied and therefore, future depreciation charges could be revised.

The carrying amounts of the Group's property, plant and equipment are disclosed in Note 5.

4.2 Measurement of income taxes

Significant judgement is required in determining the Group's estimation for current and deferred taxes because the ultimate tax liability for the Group as a whole is uncertain. When the final outcome of the tax payable is determined with the tax authorities in each jurisdiction, the amounts might be different from the initial estimates of the tax payables. Such differences may impact the current and deferred taxes in the period when such determination is made. The Group will make adjustments for current or deferred taxes in respect of prior years in the current period on those differences arise.

The income tax expense of the Group is disclosed in Note 20.

4.3 Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rate. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The Group uses a provisional matrix to calculate expected credit losses for trade receivables. The provision rates are depending on the number of days that a trade receivable is past due. The Group uses the grouping according to the customer segments that have similar loss patterns. The criteria include geographical region, product type and rating, collateral or trade credit insurance.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The information about the impairment losses on the Group's financial assets are disclosed in Note 22(b).

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

4.4 Write-down of obsolete or slow moving inventories

The Group write down their obsolete or slow moving inventories based on the assessment of their estimated net selling price. Inventories are written down when events or changes in circumstances indicate that the carrying amounts may not be recoverable. The management specifically analyses sales trend and current economic trends when making a judgement to evaluate the adequacy of the write-down of obsolete or slow moving inventories Where expectations differ from the original estimates, the differences will impact the carrying amount of inventories.

The carrying amounts of the Group's inventories are disclosed in Note 7.

4.5 Impairment of non-financial assets

The Group assesses impairment of non-financial assets whenever the events or changes in circumstances indicate that the carrying amount of an asset may be irrecoverable i.e. the carrying amount of the asset is more than the recoverable amount.

Recoverable amount is measured at the higher of the fair value less cost of disposal for that asset and its value-in-use. The Group uses fair value less cost to sell as the recoverable amount. Fair values are arrived at using comparison method and valuation technique method to suit the assets characteristic of the Group.

4.6 Fair value of investment properties

The Group carry their investment properties at fair value, with changes in fair values being recognised in profit or loss. The Group engaged an external valuer to determine the fair values. The valuation methods adopted by the valuer include sales comparison method, being comparison of current prices in an active market for similar properties in the same location and condition and where necessary, adjusting for location, accessibility, visibility, time, terrain, size, present market trends and other differences, income approach, being the projected net income and other benefits that the subject property can generate over the life of the property capitalised at market derived yields to arrive at the present value of the property. Judgement is made in determining the appropriate valuation methods and the key assumptions used in the valuations. Any changes in these assumptions will have an impact on the carrying amounts of the investment properties.

The carrying amounts of the investment properties are disclosed in Note 6.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT

	Note	Freehold land RM '000	Freehold buildings RM '000	Plant and machineries RM '000	Motor vehicles RM '000	Furniture and fittings RM '000	Office equipment RM '000	Computer hardware and software RM '000	Renovation RM '000	Capital work-in-progress RM '000	Total RM '000
Cost/revaluation											
At 1 September 2016		4,233	817	1,826	1,239	200	178	109	324	-	8,926
Additions		-	-	-	302	60	12	-	-	36	410
Revaluation surplus		1,127	240	-	-	-	-	-	-	-	1,367
Transfer from accumulated depreciation		-	(16)	-	-	-	-	-	-	-	(16)
Disposals		-	-	-	(82)	-	-	-	-	-	(82)
At 31 August 2017		5,360	1,041	1,826	1,459	260	190	109	324	36	10,605
Accumulated depreciation											
At 1 September 2016		-	-	1,018	554	79	102	87	111	-	1,951
Depreciation charge for the financial year	18	-	16	145	276	25	16	13	31	-	522
Transfer to cost upon revaluation		-	(16)	-	-	-	-	-	-	-	(16)
Disposals		-	-	-	(82)	-	-	-	-	-	(82)
At 31 August 2017		-	-	1,163	748	104	118	100	142	-	2,375
Carrying amount											
At 1 September 2016											
- At cost		-	-	808	685	121	76	22	213	-	1,925
- At revaluation		4,233	817	-	-	-	-	-	-	-	5,050
		4,233	**817**	**808**	**685**	**121**	**76**	**22**	**213**	**-**	**6,975**
At 31 August 2017											
- At cost		-	-	663	711	156	72	9	182	36	1,829
- At revaluation		5,360	1,041	-	-	-	-	-	-	-	6,401
		5,360	**1,041**	**663**	**711**	**156**	**72**	**9**	**182**	**36**	**8,230**

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Freehold land RM '000	Freehold buildings RM '000	Plant and machineries RM '000	Motor vehicles RM '000	Furniture and fittings RM '000	Office equipment RM '000	Computer hardware and software RM '000	Renovation RM '000	Capital work-in-progress RM '000	Total RM '000
Cost/revaluation											
At 1 September 2017		5,360	1,041	1,826	1,459	260	190	109	324	36	10,605
Additions		-	-	-	-	3	53	1	-	162	219
Revaluation surplus		350	21	-	-	-	-	-	-	-	371
Transfer from accumulated depreciation		-	(21)	-	-	-	-	-	-	-	(21)
At 31 August 2018		5,710	1,041	1,826	1,459	263	243	110	324	198	11,174
Accumulated depreciation											
At 1 September 2017		-	-	1,163	748	104	118	100	142	-	2,375
Depreciation charge for the financial year	18	-	21	114	228	25	20	6	31	-	445
Transfer to cost upon revaluation		-	(21)	-	-	-	-	-	-	-	(21)
At 31 August 2018		-	-	1,277	976	129	138	106	173	-	2,799
Carrying amount											
At 1 September 2017											
- At cost		-	-	663	711	156	72	9	182	36	1,829
- At revaluation		5,360	1,041	-	-	-	-	-	-	-	6,401
		5,360	**1,041**	**663**	**711**	**156**	**72**	**9**	**182**	**36**	**8,230**
At 31 August 2018											
- At cost		-	-	549	483	134	105	4	151	198	1,624
- At revaluation		5,710	1,041	-	-	-	-	-	-	-	6,751
		5,710	**1,041**	**549**	**483**	**134**	**105**	**4**	**151**	**198**	**8,375**

ECONFRAME BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Freehold land RM '000	Freehold buildings RM '000	Plant and machineries RM '000	Motor vehicles RM '000	Furniture and fittings RM '000	Office equipment RM '000	Computer hardware and software RM '000	Renovation RM '000	Capital work-in-progress RM '000	Total RM '000
Cost/revaluation											
At 1 September 2018		5,710	1,041	1,826	1,459	263	243	110	324	198	11,174
Additions		-	-	151	159	3	19	9	4	126	471
Revaluation (deficit)/surplus		(580)	2,301	-	-	-	-	-	-	-	1,721
Transfer from accumulated depreciation		-	(21)	-	-	-	-	-	-	-	(21)
Transfer to investment property	6	-	-	-	-	-	-	-	-	(324)	(324)
Written off		-	-	-	(368)	-	-	-	-	-	(368)
At 31 August 2019		5,130	3,321	1,977	1,250	266	262	119	328	-	12,653
Accumulated depreciation and impairment loss											
At 1 September 2018		-	-	1,277	976	129	138	106	173	-	2,799
Depreciation charge for the financial year	18	-	21	129	266	26	22	6	32	-	502
Transfer to cost upon revaluation		-	(21)	-	-	-	-	-	-	-	(21)
Written off		-	-	-	(368)	-	-	-	-	-	(368)
Impairment loss		10	-	-	-	-	-	-	-	-	10
At 31 August 2019		10	-	1,406	874	155	160	112	205	-	2,922
Carrying amount											
At 1 September 2018											
- At cost		-	-	549	483	134	105	4	151	198	1,624
- At revaluation		5,710	1,041	-	-	-	-	-	-	-	6,751
		5,710	**1,041**	**549**	**483**	**134**	**105**	**4**	**151**	**198**	**8,375**
At 31 August 2019											
- At cost		-	-	571	376	111	102	7	123	-	1,290
- At revaluation		5,120	3,321	-	-	-	-	-	-	-	8,441
		5,120	**3,321**	**571**	**376**	**111**	**102**	**7**	**123**	**-**	**9,731**

ECONFRAME BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Freehold land RM '000	Freehold buildings RM '000	Plant and machineries RM '000	Motor vehicles RM '000	Furniture and fittings RM '000	Office equipment RM '000	Computer hardware and software RM '000	Renovation RM '000	Capital work-in-progress RM '000	Right-of-use assets RM '000	Total RM '000
Cost/revaluation												
At 1 September 2019												
- As previously reported		5,130	3,321	1,977	1,250	266	262	119	328	-	-	12,653
- Effect of adoption of MFRS 16		-	-	(325)	(452)	-	-	-	-	-	796	19
Adjusted balance at 1 September 2019		5,130	3,321	1,652	798	266	262	119	328	-	796	12,672
Additions		-	-	113	38	-	-	-	207	-	32	390
Transfers		-	-	325	341	-	-	-	-	-	(666)	-
At 31 May 2020		5,130	3,321	2,090	1,177	266	262	119	535	-	162	13,062
Accumulated depreciation and impairment loss												
At 1 September 2019												
- As previously reported		10	-	1,406	874	155	160	112	205	-	-	2,922
- Effect of adoption of MFRS 16		-	-	(130)	(295)	-	-	-	-	-	425	-
Adjusted balance at 1 September 2019		10	-	1,276	579	155	160	112	205	-	425	2,922
Depreciation charge for the financial period	18	-	50	68	98	19	15	2	39	-	105	396
Transfers		-	-	154	325	-	-	-	-	-	(479)	-
At 31 May 2020		10	50	1,498	1,002	174	175	114	244	-	51	3,318

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Freehold land RM '000	Freehold buildings RM '000	Plant and machineries RM '000	Motor vehicles RM '000	Furniture and fittings RM '000	Office equipment RM '000	Computer hardware and software RM '000	Renovation RM '000	Capital work-in-progress RM '000	Right-of-use assets RM '000	Total RM '000
Carrying amount												
At 1 September 2019 (Adjusted)												
- At cost		-	-	376	219	111	102	7	123	-	371	1,309
- At revaluation		5,120	3,321	-	-	-	-	-	-	-	-	8,441
		5,120	**3,321**	**376**	**219**	**111**	**102**	**7**	**123**	**-**	**371**	**9,750**
At 31 May 2020												
- At cost		-	-	592	175	92	87	5	291	-	111	1,353
- At revaluation		5,120	3,271	-	-	-	-	-	-	-	-	8,391
		5,120	**3,271**	**592**	**175**	**92**	**87**	**5**	**291**	**-**	**111**	**9,744**

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Assets under finance lease

The carrying amounts of assets under a finance lease arrangements are as follows:

	Audited as at			
	31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
Plant and machineries	386	227	195	-
Motor vehicles	680	474	157	-
	1,066	701	352	-

(b) Assets pledged as security

	Audited as at			
	31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
Freehold land	5,360	5,710	5,120	5,120
Freehold buildings	1,041	1,041	3,321	3,271
	6,401	6,751	8,441	8,391

Freehold land and building have been pledged as security to secure credit facilities of the Group as disclosed in Note 12.

Leased assets are pledged as security for the related finance lease liabilities as disclosed in Note 12(b).

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) Right-of-use assets

The Group leases several assets including apartments, plant and machineries and motor vehicles.

Information about leases for which the Group is a lessee is presented below:

	Apartments RM	Plant and machineries RM	Motor vehicles RM	Total RM
Carrying amount				
At 1 September 2019	19	195	157	371
Additions	32	-	-	32
Depreciation	(13)	(24)	(68)	(105)
Transfers	-	(171)	(16)	(187)
At 31 May 2020	38	-	73	111

The Group leases apartments for staff accommodations. The leases for apartments generally have lease terms between 1 to 2 years.

The Group also leases plant and machineries and motor vehicles with lease terms between 4 to 5 years and has options to purchase the assets at the end of the contract term.

(d) Fair value information

Fair value of freehold land and buildings are categorised as follows:

	Audited as at			
	31.08.2017	31.08.2018	31.08.2019	31.05.2020
	Level 2			
	RM '000	RM '000	RM '000	RM '000
Freehold land	5,360	5,710	5,120	5,120
Freehold buildings	1,041	1,041	3,321	3,271
	6,401	6,751	8,441	8,391

There are no Level 1 and Level 3 freehold land and buildings or transfers between Level 1, Level 2 and Level 3 during the financial years ended 31 August 2017, 31 August 2018, 31 August 2019 and the financial period ended 31 May 2020.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(d) Fair value information (continued)

Level 2 fair value

Level 2 fair value of freehold land and buildings have been derived using the sales comparison approach. Sales price of comparable property in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable property.

Valuation processes applied by the Company

The fair value of freehold land and buildings was determined on 31 August 2017, 31 August 2018 and 16 July 2019, being the date of valuation, by an external independent property valuer, a member of the Institute of Valuers in Malaysia, with appropriate recognised professional qualifications and recent experience in the location and category of property being valued. There has been no change to the valuation technique during the financial years/period. The latest date of revaluation was on 16 July 2019.

(e) Had the revalued freehold land and buildings been carried at historical cost less accumulated depreciation less accumulated impairment loss, the net carrying amount of the freehold land and buildings that would have been included in the financial statements of the Company are as follows:

	Audited as at			
	31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
Freehold land	2,657	2,657	2,647	2,647
Freehold buildings	464	453	443	435
	3,121	3,110	3,090	3,082

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

6. INVESTMENT PROPERTIES

	Audited as at			
	31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
At fair value:				
At 1 September	3,600	2,550	2,800	324
Changes in fair value	(1,050)	250	400	-
Transfer from property, plant and equipment	-	-	324	-
Disposal as dividend in specie	-	-	(3,200)	-
At 31 August/31 May	2,550	2,800	324	324

Investment properties with a carrying amount of RM323,674 (31.08.2019: RM323,674; 31.08.2018: RM2,800,000 and 31.08.2017: RM2,550,000) has been pledged as security to secure credit facilities of the Group as disclosed in Note 12.

The following are recognised in profit or loss in respect of investment properties:

	Audited FYE 31 August			Audited FPE 31 May	Unaudited FPE 31 May
	2017 RM '000	2018 RM '000	2019 RM '000	2020 RM '000	2019
Rental income	156	156	155	-	117
Direct operating expenses:					
- income generating investment properties	*	*	*	-	*
- non-income generating investment properties	-	-	5	-	-

* RM59

Fair value information

Fair value of investment properties are categorized as follows:

	Level 2 RM '000	Level 3 RM '000	Total RM '000
At 31 August 2017			
Land	2,550	-	2,550
At 31 August 2018			
Land	2,800	-	2,800
At 31 August 2019			
Building	-	324	324
At 31 May 2020			
Building	-	324	324

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

6. INVESTMENT PROPERTIES (CONTINUED)

Fair value information (continued)

There are no Level 1 investment properties or transfers between Level 1 and Level 2 during the financial years ended 31 August 2017, 31 August 2018, 31 August 2019 and financial period ended 31 May 2020.

Level 2 fair value

Level 2 fair value of freehold land has been derived using the sales comparison approach. Sales price of comparable property in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square foot of comparable property.

Valuation processes applied by the Company

The fair value of investment properties is determined by an external independent property valuer, a member of the Institute of Valuers in Malaysia, with appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The valuation company provides the fair value of the investment property portfolio every 12 months. Changes in Level 2 fair values are analysed by the team every 12 months after obtaining the valuation report from the valuation company. There has been no change to the valuation technique during the financial years/period.

7. INVENTORIES

	← Audited as at			→
	31.08.2017	**31.08.2018**	**31.08.2019**	**31.05.2020**
	RM '000	**RM '000**	**RM '000**	**RM '000**
At cost:				
Raw materials	1,893	2,757	2,909	3,747

The cost of inventories of the Group recognised as an expense in cost of sales during the financial period was RM15,205,404 (31.08.2019: RM22,151,638; 31.08.2018: RM24,390,304 and 31.08.2017: RM21,411,990).

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

8. TRADE AND OTHER RECEIVABLES

	Note	Audited as at 31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
Trade					
Trade receivables	(a)	9,827	12,622	15,060	12,107
Less: Impairment losses		-	-	(31)	-
		9,827	12,622	15,029	12,107
Non-trade					
Other receivables		-	14	3	50
Deposits		90	88	309	234
Prepayments		10	64	22	1,093
Amount owing from a director		-	1,296	-	-
		100	1,462	334	1,377
Total trade and other receivables		9,927	14,084	15,363	13,484

(a) Trade receivables

Trade receivables are non-interest bearing and normal credit terms offered by the Group ranging from 30 to 120 days from the date of invoices. Other credit terms are assessed and approved on a case-by-case basis.

The Group maintains an ageing analysis in respect of trade receivables only. The ageing analysis of the Group's trade receivables are as follows:

	Audited as at 31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
Neither past due nor impaired	3,900	4,614	5,614	1,694
Past due but not impaired:	5,927	8,008	9,415	10,413
1 to 30 days past due not impaired	2,263	2,611	2,803	2,180
31 to 60 days past due not impaired	1,675	2,490	2,441	2,949
61 to 90 days past due not impaired	962	1,468	2,076	1,911
91 to 120 days past due not impaired	475	739	1,182	1,552
More than 120 days past due not impaired	552	700	913	1,821
Impaired	-	-	31	-
Total trade receivables	9,827	12,622	15,060	12,107

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (continued)

Receivables that are impaired

The Group's trade receivables that are impaired at the reporting date and the reconciliation of movement in the impairment of trade receivables is as follows:

		Audited as at			
	Note	31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
At 1 September		-	-	-	31
Charge for the financial year					
- Individually assessed	18	-	-	31	-
Reversal of impairment loss		-	-	-	(31)
At 31 August/31 May		-	-	31	-

9. CASH AND SHORT-TERM DEPOSITS

	Audited as at			
	31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
Cash and bank balances	1,342	1,336	3,177	3,089
Short-term deposits	431	564	1,704	2,877
	1,773	1,900	4,881	5,966

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise of the following:

	Audited as at			
	31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
Short-term deposits	431	564	1,704	2,877
Less: Pledged deposits	(431)	(564)	(1,704)	(2,877)
	-	-	-	-
Cash and bank balances	1,342	1,336	3,177	3,089
Bank overdraft	(195)	(660)	-	-
	1,147	676	3,177	3,089

Short-term deposits placed with licensed banks of the Group have been pledged to the licensed banks to secure credit facilities granted to the Group as disclosed in Note 12.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

10. INVESTED EQUITY

For the purpose of these combined financial statements, the invested equity at the end of the respective financial years/period is the aggregate of the share capital of the combining entities constituting the Group.

The invested equity constitutes the share capital of Econframe Berhad, Econframe Marketing Sdn. Bhd. and Econframe Pre-Hung Doors Sdn. Bhd..

11. OTHER RESERVE

	Audited as at			
	31.08.2017	**31.08.2018**	**31.08.2019**	**31.05.2020**
	RM '000	**RM '000**	**RM '000**	**RM '000**
Revaluation reserve	2,488	2,849	4,228	4,220

Revaluation reserve

	Audited as at			
	31.08.2017	**31.08.2018**	**31.08.2019**	**31.05.2020**
	RM '000	**RM '000**	**RM '000**	**RM '000**
At 1 September	1,454	2,488	2,849	4,228
Revaluation surplus	1,367	371	2,301	-
Revaluation deficit	-	-	(580)	-
Deferred tax liabilities	(326)	-	(332)	-
Realisation of revaluation reserve	(7)	(10)	(10)	(8)
At 31 August/31 May	2,488	2,849	4,228	4,220

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

12. LOANS AND BORROWINGS

	Note	Audited as at 31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
Non-current:					
Term loans	(a)	858	660	569	515
Finance lease liabilities/lease liabilities	(b)	420	167	65	62
		1,278	827	634	577
Current:					
Term loans	(a)	190	198	243	164
Finance lease liabilities/lease liabilities	(b)	280	253	110	46
Bankers' acceptance	(c)	2,267	1,748	1,265	-
Bank overdraft	(d)	195	660	-	-
		2,932	2,859	1,618	210
Total loans and borrowings:					
Term loans	(a)	1,048	858	812	679
Finance lease liabilities/lease liabilities	(b)	700	420	175	108
Bankers' acceptance	(c)	2,267	1,748	1,265	-
Bank overdraft	(d)	195	660	-	-
		4,210	3,686	2,252	787

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

12. LOANS AND BORROWINGS (CONTINUED)

(a) Term loans

Term loans of the Group bear interests ranging from 3.69% to 3.79% (31.08.2019: 4.84% to 4.94%; 31.08.2018: 4.84% to 4.94% and 31.08.2017: 4.65%) per annum and is repayable by monthly instalments of RM3,364 to RM7,859 over 5 to 7 years commencing from the day of first drawdown and is secured and supported as follows:
(i) Legal charge over the freehold land and buildings of a combining entity as disclosed in Note 5;
(ii) Legal charge over the freehold buildings of a combining entity as disclosed in Note 6; and
(iii) Letter of set-off over first party short-term deposits with interest capitalised as disclosed in Note 9.

(b) Finance lease liabilities/lease liabilities

Certain property, plant and equipment of the Group as disclosed in Note 5 are pledged for leases. Such leases do not have terms for renewal which would give the Group an option to purchase at nominal values at the end of the lease term. The effective interest in the leases is 6.28% (31.08.2019: 5.80%; 31.08.2018 and 31.08.2017: 5.74%) per annum.

Future minimum lease payments under finance leases together with the present value of net minimum lease payments are as follows:

	Audited as at			
	31.08.2017	31.08.2018	31.08.2019	31.05.2020
	RM '000	RM '000	RM '000	RM '000
Minimum lease payment:				
- Not later than one year	314	271	116	50
- Later than one year and not later than five years	441	171	71	66
- More than five years	-	-	-	-
	755	442	187	116
Less: Future finance charges	(55)	(22)	(12)	(8)
Present value of minimum lease payments	700	420	175	108

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

12. LOANS AND BORROWINGS (CONTINUED)

(b) Finance lease liabilities/lease liabilities (continued)

Future minimum lease payments under finance leases together with the present value of net minimum lease payments are as follows:

	Audited as at			
	31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
Present value of minimum lease payment payable:				
- Not later than one year	280	253	110	46
- Later than one year and not later than five years	420	167	65	62
	700	420	175	108
Less: Amount due within twelve months	(280)	(253)	(110)	(46)
Amount due after twelve months	420	167	65	62

(c) Bankers' acceptance

Bankers' acceptance bears interest at 4.10% (31.08.2019: 4.10%; 31.08.2018: 4.35% and 31.08.2017: 3.50% to 4.30%) and is secured and supported as follows:

(i) Legal charge against freehold land and buildings of a combining entity as disclosed in Note 5; and
(ii) Letter of set-off over first party short-term deposits with interest capitalised as disclosed in Note 9.

(d) Bank overdraft

Bank overdraft bears interest at 6.81% (31.08.2019: 7.81%; 31.08.2018: 7.96% and 31.08.2017: 7.60%) and is secured and supported as follows:

(i) Legal charge against freehold land and buildings of a combining entity as disclosed in Note 5; and
(ii) Letter of set-off over first party short-term deposits with interest capitalised as disclosed in Note 9.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

13. DEFERRED TAX LIABILITIES

	At 1 September 2016 RM '000	Recognised in profit or loss (Note 20) RM '000	Other comprehensive income (Note 11) RM '000	At 31 August 2017 RM '000	Recognised in profit or loss (Note 20) RM '000	At 31 August 2018 RM '000	Recognised in profit or loss (Note 20) RM '000	Other comprehensive income (Note 11) RM '000	At 31 August 2019 RM '000	Recognised in profit or loss (Note 20) RM '000	At 31 May 2020 RM '000
Deferred tax liabilities:											
Property, plant and equipment	318	17	-	335	21	356	24	-	380	(62)	318
Revaluation surplus on property, plant and equipment	459	-	326	785	-	785	-	332	1,117	-	1,117
Fair value gain on investment property	80	(52)	-	28	-	28	(28)	-	-	-	-
	857	(35)	326	1,148	21	1,169	(4)	332	1,497	(62)	1,435

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

13. DEFERRED TAX LIABILITIES (CONTINUED)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (stated at gross):

	Audited as at			
	31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
Unclaimed finance lease liabilities	4	-	-	-
Potential tax benefit @ 24%	1	-	-	-

The availability of unused tax losses for offsetting against future taxable profits in Malaysia are subject to requirements under the Income Tax, 1967 and guidelines issued by the tax authority.

Any unutilised business losses brought forward from year of assessment 2018 can be carried forward for another 7 consecutive years of assessment (i.e. from year of assessments 2019 to 2025).

14. TRADE AND OTHER PAYABLES

		Audited as at			
	Note	31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
Trade					
Trade payables	(a)	1,182	2,108	1,664	586
Non-trade					
Other payables		70	90	380	151
Accruals		291	254	185	291
Deposits payable		44	171	337	-
Amount owing to directors	(b)	488	-	-	-
		893	515	902	442
Total trade and other payables		2,075	2,623	2,566	1,028

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

14. TRADE AND OTHER PAYABLES (CONTINUED)

(a) Trade payables

Trade payables are non-interest bearing and the normal credit terms granted to the Group ranges from 30 to 60 days.

(b) Amount owing to directors

Amount owing to directors are unsecured, non-interest bearing and repayable upon demand and is expected to be settled in cash.

For explanation on the Group's liquidity risk management processes, refer to Note 22(b)(ii).

15. REVENUE

	Audited FYE 31 August			Audited FPE 31 May	Unaudited FPE 31 May
	2017	2018	2019	2020	2019
	RM '000	RM '000	RM '000	RM '000	RM '000
At a point in time:					
Sale of goods	35,494	39,834	44,089	29,977	33,265

16. OTHER INCOME

	Audited FYE 31 August			Audited FPE 31 May	Unaudited FPE 31 May
	2017	2018	2019	2020	2019
	RM '000	RM '000	RM '000	RM '000	RM '000
Interest income	9	13	21	49	15
Rental income					
- Investment property	156	156	155	-	117
- Lorry	-	-	23	18	18
Gain on disposal of property, plant and equipment	30	-	-	-	-
Fair value gain on investment property	-	250	400	-	-
Bad debt recovered	-	-	5	-	5
Reversal of impairment loss	-	-	-	31	-
Others	-	-	15	64	12
	195	419	619	162	167

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

17. FINANCE COSTS

	Audited FYE 31 August			Audited FPE 31 May	Unaudited FPE 31 May
	2017	2018	2019	2020	2019
	RM '000	RM '000	RM '000	RM '000	RM '000
Interest expense on:					
- Term loans	53	46	42	28	23
- Finance lease liabilities/ lease liabilities	47	32	22	6	12
- Bankers' acceptance	89	97	60	17	46
- Bank overdrafts	34	12	2	-	2
	223	187	126	51	83

18. PROFIT BEFORE TAX

Other than as disclosed elsewhere in the combined financial statements, the following items have been charged in arriving at profit before tax:

		Audited FYE 31 August			Audited FPE 31 May	Unaudited FPE 31 May
		2017	2018	2019	2020	2019
	Note	RM '000	RM '000	RM '000	RM '000	RM '000
Auditors' remuneration						
- Current year		20	20	38	34	26
- Prior year		-	-	11	-	11
Depreciation of property, plant and equipment	5	522	445	502	396	356
Impairment loss on property, plant and equipment	5	-	-	10	-	-
Fair value loss on investment property	6	1,050	-	-	-	-
Impairment loss on trade receivables	8	-	-	31	-	31
Bad debts written off		-	-	3	-	3
Employee benefits expense	19	1,767	2,008	2,239	1,846	1,725
Rental expense on:						
- Premise		55	79	132	37	100
Net realised foreign exchange loss		-	-	-	91	-

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

19. EMPLOYEE BENEFITS EXPENSE

	Audited			Audited	Unaudited
	FYE 31 August			FPE 31 May	
	2017	2018	2019	2020	2019
	RM '000	RM '000	RM '000	RM '000	RM '000
Salaries, wages, allowances and bonuses	1,240	1,403	1,569	1,474	1,198
Defined contribution plans	136	150	174	170	132
Other staff related benefits	391	455	496	202	395
	1,767	2,008	2,239	1,846	1,725
Included in employee benefits expense are:					
Directors' remuneration					
- Director fee	120	120	120	157	90
- Salaries, allowances and bonuses	143	160	131	80	111
- Defined contribution plans	12	14	11	10	9
- Other staff related benefits	144	189	168	1	132
	419	483	430	248	342

20. INCOME TAX EXPENSE

The major components of income tax expense for the financial years ended 31 August 2017, 31 August 2018 and 31 August 2019 and financial period ended 31 May 2020 and 31 May 2019 are as follows:

	Audited			Audited	Unaudited
	FYE 31 August			FPE 31 May	
	2017	2018	2019	2020	2019
	RM '000	RM '000	RM '000	RM '000	RM '000
Combined statements of comprehensive income					
Current income tax:					
- Current income tax charge	1,275	1,515	2,386	1,423	1,687
- Adjustment in respect of prior years	(48)	-	-	13	-
- Real property gain tax	-	-	90	(73)	-
	1,227	1,515	2,476	1,363	1,687
Deferred tax (Note 13):					
- Origination/(reversal) of temporary diferrence	(35)	21	(1)	13	34
- Adjustment in respect of prior financial years	-	-	(3)	(75)	(3)
	(35)	21	(4)	(62)	31
Income tax expense recognised in profit or loss	1,192	1,536	2,472	1,301	1,718

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

20. INCOME TAX EXPENSE (CONTINUED)

The income tax rate applicable to small and medium scale enterprise ("SME") incorporated in Malaysia with paid-up capital of RM2,500,000 and below is subject to the statutory tax rate of 17% (31.08.2019: 17%; 31.08.2018 and 31.08.2017: 18%) on chargeable income up to RM600,000 (31.08.2019, 31.08.2018 and 31.08.2017: RM500,000). For chargeable income in excess of RM600,000, statutory rate of 24% is still applicable.

The reconciliations from the tax amount at the statutory income tax rate to the Group's tax expense are as follows:

	← Audited →			Audited	Unaudited
	FYE 31 August			FPE 31 May	
	2017	2018	2019	2020	2019
	RM '000	RM '000	RM '000	RM '000	RM '000
Profit before tax	4,302	6,633	10,607	5,512	7,318
Tax at Malaysian statutory income tax rate of 24%	1,032	1,592	2,546	1,322	1,756
SME tax savings	(60)	(60)	(70)	(67)	(67)
Real property gain tax	-	-	90	(73)	-
Adjustments:					
Income not subject to tax	(7)	(60)	(96)	-	-
Non-deductible expenses	289	77	26	185	48
Utilisation of reinvestment allowance claimed	(12)	(12)	(21)	(4)	(16)
Utilisation of unrecognised deferred tax asset	(2)	(1)	-	-	-
Adjustment in respect of current income tax of prior years	(48)	-	-	13	-
Adjustment in respect deferred tax of prior years	-	-	(3)	(75)	(3)
Income tax expense	1,192	1,536	2,472	1,301	1,718

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

21. DIVIDEND

	Audited FYE 31 August 2017 RM '000	Audited FYE 31 August 2018 RM '000	Audited FYE 31 August 2019 RM '000	Audited FPE 31 May 2020 RM '000	Unaudited FPE 31 May 2019 RM '000
Recognised during the financial year/period:					
Dividends on ordinary shares:					
- Single-tier interim dividend for the financial year ended 31 August 2017: RM2.00 per ordinary share of a combining entity, paid on 1 February 2018	-	200	-	-	-
- Single-tier interim dividend for the financial year ended 31 August 2017: RM3.00 per ordinary share of a combining entity, paid on 25 October 2018	-	-	300	-	300
- Single-tier interim dividend for the financial year ended 31 August 2019: RM1.50 per ordinary share of a combining entity, paid on 21 June 2019	-	-	1,500	-	-
- Single-tier interim dividend in specie for the financial year ended 31 August 2019: RM3.20 per ordinary share of a combining entity, paid on on 24 August 2019	-	-	3,200	-	-
	-	200	5,000	-	300

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The following table analyses the financial instruments in the combined statements of financial position by the classes of financial instruments to which they are assigned:

From 1 September 2018:
(i) Amortised cost

On or before 31 August 2018
(i) Loans and receivables ("L&R")
(ii) Other financial liabilities ("FL")

	Carrying amount RM '000	L&R/(FL) RM '000
At 31 August 2017		
Financial assets		
Trade and other receivables, less prepayments	9,917	9,917
Cash and short-term deposits	1,773	1,773
	11,690	11,690
Financial liabilities		
Loans and borrowings	(4,210)	(4,210)
Trade and other payables	(2,075)	(2,075)
	(6,285)	(6,285)

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Categories of financial instruments (continued)

	Carrying amount RM '000	L&R/(FL) RM '000
At 31 August 2018		
Financial assets		
Trade and other receivables, less prepayments	14,020	14,020
Cash and short-term deposits	1,900	1,900
	15,920	15,920
Financial liabilities		
Loans and borrowings	(3,686)	(3,686)
Trade and other payables	(2,623)	(2,623)
	(6,309)	(6,309)

	Carrying amount RM '000	Amortised cost RM '000
At 31 August 2019		
Financial assets		
Trade and other receivables, less prepayments	15,341	15,341
Cash and short-term deposits	4,881	4,881
	20,222	20,222
Financial liabilities		
Loans and borrowings	(2,252)	(2,252)
Trade and other payables	(2,566)	(2,566)
	(4,818)	(4,818)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Categories of financial instruments (continued)

	Carrying amount RM '000	Amortised cost RM '000
At 31 May 2020		
Financial assets		
Trade and other receivables, less prepayments	12,391	12,391
Cash and short-term deposits	5,966	5,966
	18,357	18,357
Financial liabilities		
Loans and borrowings	(787)	(787)
Trade and other payables	(1,028)	(1,028)
	(1,815)	(1,815)

(b) Financial risk management

The Group's activities are exposed to a variety of financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk and interest rate risk. The Group's overall financial risk management objective is to optimise value for its shareholders.

The Board of Directors reviews and agrees to policies and procedures for the management of these risks, which are executed by the Group's senior management.

(i) Credit risk

Credit risk is the risk of financial loss to the Group that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. The Group has a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures.

Trade receivables

As at the end of the reporting period, the maximum exposure to credit risk arising from trade and other receivables is represented by their carrying amounts in the combined statements of financial position.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables (continued)

The carrying amounts of trade and other receivables are not secured by any collateral or supported by any other credit enhancements. In determining the recoverability of these receivables, the Group considers any change in the credit quality of the receivables from the date the credit was initially granted up to the reporting date. The Group has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

Credit risk concentration profile

The Group has no significant concentration of credit risk from its receivables.

The Group applies the simplified approach to providing for expected credit losses prescribed by MFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

The information about the credit risk exposure on the Group's trade receivables using a provision matrix are as follows:

	Trade receivables						
	Current RM '000	1 to 30 days past due RM '000	31 to 60 days past due RM '000	61 to 90 days past due RM '000	91 to 120 days past due RM '000	> 120 days past due RM '000	Total RM '000
At 31 May 2020							
Expected credit loss rate	0%	0%	0%	0%	0%	0%	0%
Gross carrying amount at default	1,694	2,180	2,949	1,911	1,552	1,821	12,107
Impairment losses	-	-	-	-	-	-	-
At 31 August 2019							
Expected credit loss rate	0%	0%	0%	0%	0%	0%	0%
Gross carrying amount at default	5,614	2,803	2,441	2,076	1,182	913	15,029
Impairment losses	-	-	-	-	-	-	-

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Other receivables and other financial assets

For other financial assets (including investment securities, cash and cash equivalents and derivatives), the Group minimises credit risk by dealing exclusively with high credit rating counterparties. At the reporting date, the Group's maximum exposure to credit risk arising from other financial assets is represented by the carrying amount of each class of financial assets recognised in the combined statements of financial position.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

* internal credit rating
* external credit rating (as far as available)
* actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
* actual or expected significant changes in the operating results of the borrower
* significant increases in credit risk on other financial instruments of the same borrower
* significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
* significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Other receivables and other financial assets (continued)

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 120 days past due in making a contractual payment.

Some intercompany loans between related entities are repayable on demand. For loans that are repayable on demand, expected credit losses are assessed based on the assumption that repayment of the loan is demanded at the reporting date. If the borrower does not have sufficient highly liquid resources when the loan is demanded, the Group will consider the expected manner of recovery and recovery period of the intercompany loan.

Refer to Note 3.9(a) for the Group's other accounting policies for impairment of financial assets.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations when they fall due. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities between financial assets and liabilities. The Group's exposure to liquidity risk arises principally from trade and other payables and loan and borrowings.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(ii) Liquidity risk (continued)

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by facilities. The Group maintains sufficient liquidity and available funds to meet daily cash needs, while maintaining controls and security over cash movements. The Group's treasury department also ensures that there are sufficient unutilised stand-by facilities, funding and liquid assets available to meet both short-term and long-term funding requirements.

Maturity analysis

The maturity analysis of the Group's financial liabilities by their relevant maturity at the reporting date based on contractual undiscounted repayment obligations are as follows:

		← Contractual cash flows →			
	Carrying amount RM '000	On demand or within one year RM '000	Between one and five years RM '000	More than five years RM '000	Total RM '000
At 31 August 2017					
Trade and other payables	2,075	2,075	-	-	2,075
Term loans	1,048	236	855	94	1,185
Finance lease liabilities	700	314	441	-	755
Bankers' acceptance	2,267	2,267	-	-	2,267
Bank overdraft	195	195	-	-	195
	6,285	5,087	1,296	94	6,477
At 31 August 2018					
Trade and other payables	2,623	2,623	-	-	2,623
Term loans	858	236	707	6	949
Finance lease liabilities	420	271	171	-	442
Bankers' acceptance	1,748	1,748	-	-	1,748
Bank overdraft	660	660	-	-	660
	6,309	5,538	878	6	6,422

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(ii) Liquidity risk (continued)

Maturity analysis (continued)

	Carrying amount RM '000	Contractual cash flows: On demand or within one year RM '000	Between one and five years RM '000	More than five years RM '000	Total RM '000
At 31 August 2019					
Trade and other payables	2,566	2,566	-	-	2,566
Term loans	812	276	605	-	881
Finance lease liabilities	175	116	71	-	187
Bankers' acceptance	1,265	1,265	-	-	1,265
	4,818	4,223	676	-	4,899
At 31 May 2020					
Trade and other payables	1,028	1,028	-	-	1,028
Term loans	679	198	537	-	735
Lease liabilities	108	50	66	-	116
	1,815	1,276	603	-	1,879

(iii) Interest rate risk

Interest rate risk is the risk of fluctuation in fair value or future cash flows of the Group's financial instruments as a result of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from their long-term loans and borrowings and short-term deposits with floating interest rates.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(iii) Interest rate risk (continued)

Sensitivity analysis for interest rate risk

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant on the Group's total equity and profit for the financial years/period.

	Carrying amount RM '000	Change in basis point	Effect on profit for the financial year/ period/equity RM '000
31 August 2017			
Term loans	(1,048)	+ 50	(4)
		- 50	4
Bankers' acceptance	(2,267)	+ 50	(9)
		- 50	9
Bank overdraft	(195)	+ 50	(1)
		- 50	1
Short-term deposits	431	+ 50	2
		- 50	(2)
31 August 2018			
Term loans	(858)	+ 50	(3)
		- 50	3
Bankers' acceptance	(1,748)	+ 50	(7)
		- 50	7
Bank overdraft	(660)	+ 50	(3)
		- 50	3
Short-term deposits	564	+ 50	2
		- 50	(2)

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(iii) Interest rate risk (continued)

Sensitivity analysis for interest rate risk (continued)

	Carrying amount RM '000	Change in basis point	Effect on profit for the financial year/ period/equity RM '000
31 August 2019			
Term loans	(812)	+ 50	(3)
		- 50	3
Bankers' acceptance	(1,265)	+ 50	(5)
		- 50	5
Short-term deposits	1,704	+ 50	6
		- 50	(6)
31 May 2020			
Term loans	(679)	+ 50	(3)
		- 50	3
Short-term deposits	2,877	+ 50	11
		- 50	(11)

(c) Fair value measurement

The carrying amount of cash and cash equivalents, short-term receivables and payables and short-term borrowings reasonably approximate their fair values due to the relatively short-term nature of these financial instruments.

There have been no transfers between Level 1, Level 2 and Level 3 during the financial years/period.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

22. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurement (continued)

	Carrying amount RM '000	Fair value of financial instruments not carried at fair value — Fair Value: Level 1 RM '000	Level 2 RM '000	Level 3 RM '000	Total RM '000
At 31 August 2017					
Financial liabilities					
Term loans	858	-	-	788	788
Finance lease liabilities	420	-	-	410	410
At 31 August 2018					
Financial liabilities					
Term loans	660	-	-	606	606
Finance lease liabilities	167	-	-	160	160
At 31 August 2019					
Financial liabilities					
Term loans	569	-	-	523	523
Finance lease liabilities	65	-	-	65	65
At 31 May 2020					
Financial liability					
Term loans	515	-	-	475	475

Level 3 fair value

<u>Fair value of financial instruments not carried at fair value</u>

The fair value of liability component of term loans and finance lease liabilities are calculated based on the present value of future principal and interest cash flows, discounted at the market interest rate of similar liabilities.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

23. COMMITMENTS

The Group has made the commitments for the following capital expenditure:

	Audited as at			
	31.08.2017 RM '000	31.08.2018 RM '000	31.08.2019 RM '000	31.05.2020 RM '000
Capital expenditures contracted but not provided for:				
- Purchase of property, plant and equipment	-	-	63	-
Capital expenditures not contracted and not provided for:				
- Purchase of land	-	-	-	5,000
- Purchase of property, plant and equipment	-	-	-	4,000

24. RELATED PARTIES

(a) Identification of related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operational decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or other entities.

Related parties of the Group include:

(i) Key management personnel of the Group, comprise persons (including directors) having the authority and responsibility for planning, directing and controlling the activities directly and indirectly.

(b) Compensation of key management personnel

	Audited FYE 31 August			Audited FPE 31 May	Unaudited FPE 31 May
	2017 RM '000	2018 RM '000	2019 RM '000	2020 RM '000	2019 RM '000
Salaries, allowances and bonuses	559	603	603	574	460
Defined contribution plans	49	54	54	54	42
Other staff related benefits	147	192	172	4	135
	755	849	829	632	637

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

25. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximise shareholder value. The Group manages its capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies and processes during the financial years ended 31 August 2017, 31 August 2018 and 31 August 2019 and financial period ended 31 May 2020.

The Group monitors capital using gearing ratio. The gearing ratio is calculated as net debts divided by equity attributable to the owners of the Group. The gearing ratio as at 31 August 2017, 31 August 2018, 31 August 2019 and 31 May 2020 are as follows:

		Audited as at			
		31.08.2017	31.08.2018	31.08.2019	31.05.2020
	Note	RM '000	RM '000	RM '000	RM '000
Loans and borrowings	12	4,210	3,686	2,252	787
Less: Cash and short-term deposits	9	(1,773)	(1,900)	(4,881)	(5,966)
Total net debts		2,437	1,786	(2,629)	(5,179)
Total equity		16,217	21,485	26,009	30,220
Gearing ratio (times)		0.15	0.08	N/A	N/A

There were no changes in the Group's approach to capital management during the financial years/period under review.

The Group is required to comply with externally imposed capital requirements on gearing ratio. The Group has complied with those capital requirements.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

26. SIGNIFICANT EVENTS DURING TO THE FINANCIAL YEARS/PERIODS

COVID-19 outbreak

On 11 March 2020, the World Health Organisation declared the Coronavirus Disease ("Covid-19") outbreak as a pandemic in recognition of its rapid spread across the globe. On 16 March 2020, the Malaysian Government has imposed the movement control order ("MCO") starting from 18 March 2020 to curb the spread of the Covid-19 outbreak in Malaysia. The Covid-19 outbreak also resulted in travel restriction, lockdown, and other precautionary measures imposed in various countries. The emergence of the Covid-19 outbreak since early 2020 has brought significant economic uncertainties in Malaysia and markets in which the Group operates.

The Group has performed an assessment of the overall impact of the situation on the Group's operations, including the recoverability of the carrying amount of assets and measurements of assets and liabilities and concluded that there is no material adverse effects on the financial statements for the financial period ended 31 May 2020.

The Company is unable to reasonably estimate the full extent of the financial impact that these events have on its financial position, results of operations or cash flows for the financial year ended 31 August 2020 due to the uncertainty of the future outcome of the current events. It is however certain that the worldwide measures against the spread of the coronavirus will have direct and indirect effects on its operations. The Company will continuously monitor the impact of Covid-19 on its operations and financial performance and will be taking appropriate and timely measures to minimise the impact of the outbreak on the Company's operations.

27. SIGNIFICANT EVENTS SUBSEQUENT TO THE FINANCIAL PERIOD

(a) On 12 February 2020, the Company entered into a conditional share sale agreement to acquire the entire equity interest of Econframe Marketing Sdn. Bhd. for a total purchase consideration of RM24,230,000 which will be wholly satisfied by the issuance of 242,300,000 shares in the Company at RM0.10 per share.

The purchase consideration of RM24,230,000 was arrived at on a willing buyer-willing seller basis based on the audited net assets of Econframe Marketing Sdn. Bhd. of RM24,236,552 as at 31 August 2019. The acquisition was completed on 1 August 2020.

(b) On 12 February 2020, the Company entered into a conditional share sale agreement to acquire the entire equity interest of Econframe Pre-Hung Doors Sdn. Bhd. for a total purchase consideration of RM1,769,990 which will be wholly satisfied by the issuance of 17,699,900 shares in the Company at RM0.10 per share.

The purchase consideration of RM1,769,990 was arrived at on a willing buyer-willing seller basis based on the audited net assets of Econframe Pre-Hung Doors Sdn. Bhd. of RM1,772,522 as at 31 August 2019. The acquisition was completed on 1 August 2020.

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

28. SEGMENT INFORMATION

The Group prepared the following segment information in accordance with MFRS 8 *Operating Segments* based on the internal reports of the Group's strategic business units which are regularly reviewed by the directors for the purpose of making decisions about resource allocation and performance assessment.

The two reportable operating segments are as follows:

Segments	**Product and services**
Manufacturing	Manufacture of doors, doors and window frames
Trading	Trading of doors and ironmongery

Inter-segment pricing is determined on a negotiated basis.

Segment profit

Segment performance is used to measure performance as the Managing Director believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Segment assets

Segment assets information is neither included in the internal management reports nor provided regularly to the Managing Director. Hence no disclosure is made on segment assets.

Segment liabilities

Segment liabilities information is neither included in the internal management reports nor provided regularly to the Managing Director. Hence no disclosure is made on segment liabilities.

ECONFRAME BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

28. SEGMENT INFORMATION (CONTINUED)

	Note	Manufacturing RM '000	Trading RM '000	Adjustments and eliminations RM '000	Total RM '000
31 August 2017					
Revenue:					
Revenue from external customers		23,904	11,590	-	35,494
Inter-segment revenue	A	712	2	(714)	-
		24,616	11,592	(714)	35,494
Segment profit		5,575	3,268	-	8,843
Other income					195
Unallocated expenses					(4,513)
Finance costs					(223)
Income tax expense					(1,192)
Profit for the financial year					3,110
Results:					
Included in the measure of segments profit/(loss) are:					
Employee benefits expense					1,767
Depreciation					522

ECONFRAME BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

28. SEGMENT INFORMATION (CONTINUED)

	Note	Manufacturing RM '000	Trading RM '000	Adjustments and eliminations RM '000	Total RM '000
31 August 2018					
Revenue:					
Revenue from external customers		30,857	8,977	-	39,834
Inter-segment revenue	A	429	22	(451)	-
		31,286	8,999	(451)	39,834
Segment profit		7,552	2,325	-	9,877
Other income					419
Unallocated expenses					(3,476)
Finance costs					(187)
Income tax expense					(1,536)
Profit for the financial year					5,097
Results:					
Included in the measure of segments profit/(loss) are:					
Employee benefits expense					2,008
Depreciation					445

ECONFRAME BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

28. SEGMENT INFORMATION (CONTINUED)

	Note	Manufacturing RM '000	Trading RM '000	Adjustments and eliminations RM '000	Total RM '000
31 August 2019					
Revenue:					
Revenue from external customers		36,781	7,308	-	44,089
Inter-segment revenue	A	116	283	(399)	-
		36,897	7,591	(399)	44,089
Segment profit		11,932	2,682	-	14,614
Other income					619
Unallocated expenses					(4,500)
Finance costs					(126)
Income tax expense					(2,472)
Profit for the financial year					8,135
Results:					
Included in the measure of segments profit/(loss) are:					
Employee benefits expense					2,239
Depreciation					502

ECONFRAME BERHAD
Accountants' Report

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

28. SEGMENT INFORMATION (CONTINUED)

	Note	Manufacturing RM '000	Trading RM '000	Adjustments and eliminations RM '000	Total RM '000
31 May 2020					
Revenue:					
Revenue from external customers		24,364	5,613	-	29,977
Inter-segment revenue	A	2	18	(20)	-
		24,366	5,631	(20)	29,977
Segment profit		7,531	2,097	-	9,628
Other income					162
Unallocated expenses					(4,227)
Finance costs					(51)
Income tax expense					(1,301)
Profit for the financial period					4,211
Results:					
Included in the measure of segments profit/(loss) are:					
Employee benefits expense					1,846
Depreciation					396

NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

28. SEGMENT INFORMATION (CONTINUED)

	Note	Manufacturing RM '000	Trading RM '000	Adjustments and eliminations RM '000	Total RM '000
31 May 2019					
Revenue:					
Revenue from external customers		27,581	5,684	-	33,265
Inter-segment revenue	A	79	243	(322)	-
		27,660	5,927	(322)	33,265
Segment profit		8,609	2,008	-	10,617
Other income					167
Unallocated expenses					(3,383)
Finance costs					(83)
Income tax expense					(1,718)
Profit for the financial period					5,600
Results:					
Included in the measure of segments profit/(loss) are:					
Employee benefits expense					1,725
Depreciation					356

A. Inter-segment revenue

Inter-segment revenue are eliminated on combination.

<u>Information about major customers</u>

For the manufacturing segment, revenue from two (2) (31.08.2019, 31.08.2018 and 31.08.2017: two (2)) customers represented approximately RM3,171,105 (31.08.2019: RM4,939,249; 31.08.2018: RM3,982,094; 31.08.2017: RM3,825,606) of the Group's total revenue.

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7 September 2020

The Board of Directors
Econframe Berhad
No. 1 & 3, Jalan 27A, Kawasan 16
Sungai Rasau Industrial Area
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Selangor Darul Ehsan
Malaysia

Dear Sirs,

ECONFRAME BERHAD

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 MAY 2020 INCLUDED IN A PROSPECTUS

We have completed our assurance engagement to report on the compilation of the pro forma consolidated statements of financial position of Econframe Berhad ("Econframe" or the "Company") and its subsidiaries, namely Econframe Marketing Sdn. Bhd. and Econframe Pre-Hung Doors Sdn. Bhd. (the "Group") for which the directors of Econframe are solely responsible. The pro forma consolidated statements of financial position consist of the pro forma consolidated statements of financial position as at 31 May 2020 together with the accompanying notes thereon, as set out in the accompanying statements, for which we have stamped for the purpose of identification. The applicable criteria on the basis of which the directors of Econframe have compiled the pro forma consolidated statements of financial position are as described in Note 2 to the pro forma consolidated statements of financial position and in accordance with the requirements of the *Prospectus Guidelines – Equity* issued by the Securities Commission Malaysia ("Prospectus Guidelines") ("Applicable Criteria").

The pro forma consolidated statements of financial position of the Group has been compiled by the directors of Econframe, for illustrative purposes only, for inclusion in the prospectus of Econframe ("Prospectus") in connection with its Initial Public Offering ("IPO") in conjunction with the listing of and quotation for the entire enlarged issued share capital of Econframe on the ACE Market of Bursa Malaysia Securities Berhad ("Listing"), after making certain assumptions and such adjustments to show the effects on the pro forma consolidated financial position of the Group as at 31 May 2020 adjusted for the transactions as described in Note 2.7 to the pro forma consolidated statements of financial position, the public issue, offer for sale and the use of proceeds as described in Notes 1.2, 1.3 and 3.2.2 to the pro forma consolidated statements of financial position.

As part of this process, information about the Group's pro forma consolidated statements of financial position has been extracted by the directors of Econframe from the audited financial statements of Econframe and its subsidiaries as follows:

Company Name	Financial Period Ended ("FPE")
Econframe	31 May 2020
Econframe Marketing Sdn. Bhd. ("ECM")	31 May 2020
Econframe Pre-Hung Doors Sdn. Bhd. ("PHD")	31 May 2020

The audited financial statements of the Econframe and its subsidiaries for the FPE 31 May 2020 were reported by us to their respective members without any modifications.

Directors' Responsibility for the Pro Forma Consolidated Statements of Financial Position

The directors of Econframe are responsible for compiling the pro forma consolidated statements of financial position based on the Applicable Criteria.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the By-Laws (on Professional Ethics, Conduct and Practice) issued by the Malaysian Institute of Accountants; which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies *International Standard on Quality Control 1 (ISQC 1), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, on whether the pro forma consolidated statements of financial position has been compiled, in all material respects, by the directors of Econframe based on the Applicable Criteria.

We conducted our engagement in accordance with *International 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 International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the directors of Econframe have compiled, in all material respects, the pro forma consolidated statements of financial position based on the Applicable Criteria.

For the purpose of this engagement, we are not responsible for updating or re-issuing 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 Prospectus is solely to illustrate the impact of significant events or transactions on the unadjusted financial information of the Group as if the events had occurred or the transaction had been undertaken at an earlier date selected for illustrative purposes only. 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 has been compiled, in all material respects, based on the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the directors of Econframe in the compilation of the pro forma consolidated statements of financial position of the Group provide a reasonable basis for presenting the significant effects directly attributable to the Listing and the acquisition of subsidiaries as described in Notes 1 and 2.7.1 to the pro forma consolidated statements of financial position, and to obtain sufficient appropriate evidence about whether:

(a) The pro forma consolidated statements of financial position of the Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma consolidated statements of financial position, based on the audited financial statements of Econframe and its subsidiaries for the FPE 31 May 2020, and in a manner consistent with both the format of the financial statements and the accounting policies adopted by Econframe and its subsidiaries in the preparation of its audited financial statements for the FPE 31 May 2020 and the adoption of the new accounting policies as described in Note 2.6 to the pro forma consolidated statements of financial position; and

(b) Each material adjustment 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.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the pro forma consolidated statements of financial position have 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 have obtained is sufficient and appropriate to provide a basis for our opinion.

Our opinion

In our opinion:

(a) the pro forma consolidated statements of financial position of the Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma consolidated statements of financial position, based on the audited financial statements of Econframe and its subsidiaries for the FPE 31 May 2020 and in a manner consistent with both the format of the financial statements and the accounting policies adopted by Econframe and its subsidiaries in the preparation of its audited financial statements for the FPE 31 May 2020, which had been adopted by Econframe as its group's accounting policies and the adoption of the new accounting policies as described in Note 2.6 to the pro forma consolidated statements of financial position; and

(b) each material adjustment made to the information used in the preparation of the pro forma consolidated statements of financial position of the Group is appropriate for the purpose of preparing the pro forma consolidated statements of financial position.

Other matters

This report has been prepared for inclusion in the Prospectus of Econframe in connection with the Listing. As such, this report should not be used, circulated, quoted or otherwise referred to in any document or used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Yours faithfully,

Baker Tilly Monteiro Heng PLT
201906000600 (LLP0019411-LCA) & AF 0117
Chartered Accountants

Dato' Lock Peng Kuan
No. 02819/10/2020 J
Chartered Accountant

ECONFRAME BERHAD

PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

1. INTRODUCTION

The pro forma consolidated statements of financial position of Econframe Berhad ("Econframe" or the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") has been compiled by the directors of Econframe, for illustrative purposes only, for inclusion in the prospectus of Econframe in connection with its initial public offering ("IPO") in conjunction with the listing of and quotation for the entire enlarged issued share capital of Econframe on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing").

1.1 Econframe is undertaking a listing of and quotation for its entire enlarged issued share capital on the ACE Market of Bursa Securities. The Listing comprises the following:

1.2 **Public Issue**

The public issue of 65,000,000 new ordinary shares in Econframe ("Shares"), at the IPO price of RM0.28 for each Share, representing 20.0% of the enlarged number of shares of Econframe, to be allotted in the following manner:

(i) 16,250,000 new Shares available for application by the Malaysian public;

(ii) 3,250,000 new Shares available for application by the eligible directors and employees of the Group;

(iii) 13,000,000 new Shares by way of private placement to selected investors; and

(iv) 32,500,000 new Shares by way of private placement to identified Bumiputera investors approved by the Ministry of International Trade and Industry Malaysia.

(Collectively hereinafter referred to as "Public Issue").

1.3 **Offer for Sale**

Offer for Sale of 32,500,000 existing Shares at the IPO price of RM0.28 per Share representing 10.0% of the enlarged number of Shares of Econframe by way of placement to selected investors ("Offer for Sale").

1.4 **Listing on Bursa Securities**

The admission of Econframe to the Official List and the listing of and quotation for its entire enlarged issued share capital of RM44,200,090 comprising 325,000,000 Shares on the ACE Market of Bursa Securities.

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2. BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

2.1 The pro forma consolidated statements of financial position has been prepared to illustrate that the pro forma consolidated financial position of the Group as at 31 May 2020, adjusted for the transactions as described in Note 2.7, the Public Issue, Offer for Sale and the use of proceeds as described in Notes 1.2, 1.3 and 3.2.2 respectively.

2.2 The pro forma consolidated statements of financial position has been prepared based on the audited financial statements for the financial period ended 31 May 2020 ("FPE 2020") of Econframe and its subsidiaries adjusted for the transactions as described in Note 2.7:

Company Name	Financial Period Ended
Econframe	31 May 2020
Econframe Marketing Sdn. Bhd. ("ECM")	31 May 2020
Econframe Pre-Hung Doors Sdn. Bhd. ("PHD")	31 May 2020

2.3 The audited financial statements of Econframe and its subsidiaries for the financial period under review were reported by the auditors to their respective members without any modifications.

2.4 The pro forma consolidated statements of financial position of the Group has been prepared for illustrative purposes only and, such information may not, because of its nature, give a true picture of the actual financial position and the results of the Group and does not purport to predict the future financial position and results of the Group.

2.5 The pro forma consolidated statements of financial position of the Group have been properly prepared on the basis set out in the accompanying notes to the pro forma consolidated statements of financial position based on the audited financial statements of Econframe and its subsidiaries for the FPE 2020 which have been prepared in accordance with the Malaysian Financial Reporting Standards and the International Financial Reporting Standards.

2. BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

2.6 The pro forma consolidated statements of financial position of the Group have been prepared in a manner consistent with both the format of the audited financial statements and accounting policies adopted by Econframe and its subsidiaries in the preparation of its audited financial statements for the FPE 2020 and the adoption of the following new accounting policies, which had been adopted by the Group as the group's accounting policies.

Merger accounting

The subsidiaries are accounted for using the merger method of accounting.

Entities under a reorganisation does not result in any change in economic substance. Accordingly, the Group is a continuation of the acquired entity and is accounted for as follows:

- the assets and liabilities of the acquired entity is recognised and measured in the consolidated financial statements at the pre-combination carrying amounts;
- the retained earnings and other equity balances of acquired entity immediately before the business combination are those of the Group; and
- the equity structure, however, reflects the equity structure of the Group and the difference arising from the change in equity structure of the Group will be accounted for in reorganisation reserve/deficit.

A business combination involving entities under common control is a business combination in which all the combining entities or subsidiaries are ultimately controlled by the same party and parties both before and after the business combination, and that control is not transitory. Subsidiaries acquired which have met the criteria for pooling-of-interests are accounted for using merger accounting principles. Under the merger method of accounting, the results of the subsidiaries are presented as if the business combination had been effected throughout the current and previous financial years. The assets and liabilities consolidated are accounted for based on the carrying amounts from the perspective of the common control shareholder at the date of transfer. On consolidation, the difference between costs of acquisition over the nominal value of share capital of the subsidiaries is taken to reorganisation reserve or reorganisation deficit.

2.7 In connection with Listing, the pro forma consolidated statements of financial position have been presented after adjusting for the following material transactions subsequent to 31 May 2020 but before the Public Issue as described in Note 1.2.

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2. BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

2.7.1 Acquisition of subsidiaries (the "Acquisitions")

2.7.1.1 Acquisition of ECM

Econframe had on 12 February 2020 entered into a conditional share sale agreement with Lim Chin Horng and Lim Saw Nee to acquire the entire issued share capital of ECM of RM1,000,000 comprising 1,000,000 ordinary shares for a total purchase consideration of RM24,230,000. The acquisition of ECM is to be wholly satisfied by issuance of 242,300,000 new Shares at an issue price of RM0.10 per Share.

The total purchase consideration of RM24,230,000 was arrived at on a "willing-buyer willing-seller" basis after taking into consideration the audited net assets ("NA") of ECM as at 31 August 2019 of RM24,236,552. The acquisition was completed on 1 August 2020.

2.7.1.2 Acquisition of PHD

Econframe had on 12 February 2020 entered into a conditional share sale agreement with Lim Chin Horng and Khoo Soon Beng to acquire the entire issued share capital of PHD of RM100,000 comprising 100,000 ordinary shares for a total purchase consideration of RM1,769,990. The acquisition of PHD is to be wholly satisfied by issuance of 17,699,900 new Shares at an issue price of RM0.10 per Share.

The total purchase consideration of RM1,769,990 was arrived at on a "willing-buyer willing-seller" basis after taking into consideration the audited NA of PHD as at 31 August 2019 of RM1,772,522. The acquisition was completed on 1 August 2020.

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP

3.1 The pro forma consolidated statements of financial position of the Group as set out below, for which the directors of the Group are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited consolidated statements of financial position of the Group as at 31 May 2020, had the transactions as described in Note 2.7, the Public Issue, Offer for Sale and the use of proceeds as described in the Notes 1.2, 1.3 and 3.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

		Pro Forma I	Pro Forma II	Pro Forma III
	Audited Statement of Financial Position as at 31 May 2020 RM'000	After the Acquisitions RM'000	After Pro Forma I and the Public Issue and Offer for Sale RM'000	After Pro Forma II and the Use of Proceeds RM'000
ASSETS				
Non-current assets				
Property, plant and equipment	-	9,744	9,744	9,744
Investment properties	-	324	324	324
Total non-current assets	-	10,068	10,068	10,068
Current assets				
Inventories	-	3,747	3,747	3,747
Current tax assets	-	205	205	205
Trade and other receivables	440	13,484	13,484	13,044
Cash and short-term deposits	-	5,966	24,166	22,093
Total current assets	440	23,402	41,602	39,089
TOTAL ASSETS	440	33,470	51,670	49,157
EQUITY AND LIABILITIES				
Equity attributable to owners of the Company				
Share capital	*	26,000	44,200	43,300
Reorganisation reserve	-	(25,399)	(25,399)	(25,399)
Other reserves	-	4,220	4,220	4,220
(Accumulated loss)/ retained earnings	(499)	25,399	25,399	23,786
TOTAL EQUITY	(499)	30,220	48,420	45,907

ECONFRAME BERHAD

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.1 (Continued)

	Audited Statement of Financial Position as at 31 May 2020 RM'000	Pro Forma I After the Acquisitions RM'000	Pro Forma II After Pro Forma I and the Public Issue and Offer for Sale RM'000	Pro Forma III After Pro Forma II and the Use of Proceeds RM'000
Non-current liabilities				
Loans and borrowings	-	577	577	577
Deferred tax liabilities	-	1,435	1,435	1,435
Total non-current liabilities	-	2,012	2,012	2,012
Current liabilities				
Loans and borrowings	-	210	210	210
Current tax liabilities	-	-	-	-
Trade and other payables	939	1,028	1,028	1,028
Total current liabilities	939	1,238	1,238	1,238
TOTAL LIABILITIES	939	3,250	3,250	3,250
TOTAL EQUITY AND LIABILITIES	440	33,470	51,670	49,157
Number of ordinary shares assumed to be in issue ('000)	@	260,000	325,000	325,000
(Net liabilities ("NL"))/ NA^ (RM'000)	(499)	30,220	48,420	45,907
(NL)/NA per ordinary share (RM)	(4,992.93)	0.12	0.15	0.14

^ attributable to owners of the Company

* RM100
@ 100 shares

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 Notes to the pro forma consolidated statements of financial position are as follows:

3.2.1 The pro forma consolidated statements of financial position of the Group, for which the directors of the Group are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited statement of financial position of the Group as at 31 May 2020, had the transactions as described in Note 2.7, the Public Issue, Offer for Sale and the use of proceeds as described in Notes 1.2, 1.3 and 3.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

3.2.2 The proceeds from the Public Issue would be utilised in the following manner:

	RM'000	%	Estimated time frame for utilisation from Listing
Capital expenditure and expansion	9,000	49.45%	Within 24 months
Working capital	6,200	34.07%	Within 6 months
Estimated listing expenses	3,000	16.48%	Within 1 month
	18,200	100.00%	

(1) As at the latest practicable date, the Group has yet to enter into any contractual binding agreements or issue any purchase orders in relation to the capital expenditure and expansion. The Group has also yet to issue any purchase orders for the purchase of raw materials in relation to the amount earmarked for the purpose of working capital. Accordingly, the use of proceeds earmarked for capital expenditure and expansion and working capital is not reflected in the pro forma consolidated statements of financial position.

3.2.3 The pro forma consolidated statements of financial position should be read in conjunction with the notes below:

(a) **Pro Forma I**

Pro Forma I incorporate the effects of the Acquisitions as described in Note 2.7.1 on the pro forma consolidated statements of financial position of Econframe as at 31 May 2020.

The reorganisation reserve of the Acquisitions are as below:

	RM'000
Purchase consideration	26,000
Less: Share capital of proposed subsidiaries	(1,100)
Add: Accumulated loss of Econframe	499
Reorganisation reserve	25,399

3. **PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)**

3.2 (Continued)

3.2.3 (Continued)

(a) **Pro Forma I (Continued)**

The Acquisitions had the following impact on the pro forma consolidated statements of financial position of Econframe as at 31 May 2020:

	Increase/(Decrease)	
	Effects on Total Assets RM'000	**Effects on Total Liabilities/ Equity RM'000**
Property, plant and equipment	9,744	-
Investment properties	324	-
Trade and other receivables	13,044	-
Current tax assets	205	-
Cash and short-term deposits	5,966	-
Inventories	3,747	-
Share capital	-	26,000
Reorganisation reserve	-	(25,399)
Other reserves	-	4,220
Retained earnings	-	25,898
Deferred tax liabilities	-	1,435
Loans and borrowings		
- Non-current	-	577
- Current	-	210
Trade and other payables	-	89
	33,030	33,030

3. **PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)**

3.2 (Continued)

3.2.3 (Continued)

(b) **Pro Forma II**

Pro Forma II incorporates the cumulative effects of Pro Forma I and the Public Issue and Offer for Sale as described in Notes 1.2 and 1.3.

The Public Issue and Offer for Sale will have the following impact on the pro forma consolidated statements of financial position of the Group as at 31 May 2020:

	Increase/(Decrease)	
	Effects on Total Assets RM'000	**Effects on Total Equity RM'000**
Cash and short-term deposits	18,200	-
Share capital	-	18,200
	18,200	18,200

(c) **Pro Forma III**

Pro Forma III incorporates the cumulative effects of Pro Forma II and the use of proceeds from the Public Issue of RM18.20 million after netting off RM3.00 million for estimated listing expenses.

The remaining proceeds expected from the Public Issue of RM15.20 million will be utilised in the manner as described in Note 3.2.2.

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.3 (Continued)

(c) **Pro Forma III (continued)**

As at 31 May 2020, out of the RM3.00 million estimated listing expenses, RM0.93 million has already been incurred of which RM0.49 million is charged to Retained Earnings Account and RM0.44 million has been recognised as prepayment. The RM0.44 million is recognised as prepayment as these are directly attributable expenses relating to the new issuance of shares which will be capitalised under Share Capital Account upon Listing.

Out of the remaining estimated listing expenses to be incurred of RM2.07 million, RM1.61 million will be charged to Retained Earnings Account and RM0.46 million will be recognised in Share Capital Account as these are directly attributable expenses relating to the new issuance of shares. Together with the amount previously recorded as prepayment of RM0.44 million, a total of RM0.90 million will be capitalised under Share Capital Account.

The use of proceeds will have the following impact on the pro forma consolidated statements of financial position of the Group as at 31 May 2020:

	Increase/(Decrease)	
	Effects on Total Assets RM'000	Effects on Total Liabilities/ Equity RM'000
Trade and other receivables	(440)	-
Cash and bank balances	(2,073)	-
Share capital	-	(900)
Retained earnings	-	(1,613)
	(2,513)	(2,513)

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3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.4 Movements in share capital and reserves are as follows:

	Share capital RM'000	Reorganisation reserve RM'000	Other reserve RM'000	(Accumulated loss)/ retained earnings RM'000
Audited statement of financial position of Econframe as at 31 May 2020	*	-	-	(499)
Arising from the Acquisitions	26,000	(25,399)	4,220	25,898
Per Pro Forma I	26,000	(25,399)	4,220	25,399
Arising from the Public Issue and Offer for Sale	18,200	-	-	-
Per Pro Forma II	44,200	(25,399)	4,220	25,399
Arising from the defrayment of estimated listing expenses	(900)	-	-	(1,613)
Per Pro Forma III	43,300	(25,399)	4,220	23,786

* RM100

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3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.5 Movements in cash and short-term deposits are as follows:

	RM'000
Audited statement of financial position of Econframe as at 31 May 2020	-
Arising from the Acquisitions	5,966
Per Pro Forma I	5,966
Arising from the Public Issue and Offer for Sale	18,200
Per Pro Forma II	24,166
Arising from the use of proceeds:	
- Estimated listing expenses	(2,073)
Per Pro Forma III	22,093

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ECONFRAME BERHAD

APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted on behalf of the Board of Directors of Econframe Berhad in accordance with a resolution dated 7 September 2020.

....	....
Lim Chin Horng	**Khoo Soon Beng**
Director	**Director**

14. STATUTORY AND OTHER INFORMATION

14.1 SHARE CAPITAL

(i) As at the date of this Prospectus, we only have one class of shares, namely, ordinary shares, all of which rank equally with one another. There are no special rights attached to our Shares.

(ii) Save for our Pink Form Allocations as disclosed in Section 4.3.2, as at the date of this Prospectus:

(a) no Director or employee of our Group has been or is entitled to be given or has exercised any option to subscribe for any share of our Company or our subsidiaries; and

(b) there is no scheme involving the employees of our Group in the shares of our Company or our subsidiaries.

(iii) Save for the subscriber's share issued upon our incorporation, subsequent allotment of 99 Shares and our new Shares issued/to be issued under the Acquisitions and Public Issue as disclosed in Section 6.3 and Section 4.3.1 respectively, no shares of our Company or our subsidiaries have been issued or are proposed to be issued as fully or partly paid-up, in cash or otherwise, within the past 2 years immediately preceding the date of this Prospectus.

(iv) Other than our Public Issue as disclosed in Section 4.3.1, there is no intention on the part of our Directors to further issue any Shares on the basis of this Prospectus.

(v) As at the date of this Prospectus, we do not have any outstanding convertible debt securities.

(vi) None of our Group's capital is under option, or agreed conditionally or unconditionally to be put under option.

14.2 CONSTITUTION

The following provisions are extracted from our Constitution. Terms defined in our Constitution shall have the same meanings when used here unless they are otherwise defined here or the context otherwise requires. The following provisions extracted from our Constitution are based on the current Listing Requirements and the Act.

(i) Remuneration of Directors

Clause 21.4 - Remuneration

The Directors shall be paid by way of remuneration for their services such fixed sum as shall from time to time be determined by the Company in meeting of Members, and such remuneration shall be divided among the Directors in such proportions and manner as the Directors may determine **provided always** that:-

(a) fees payable to non-executive Directors shall be by a fixed sum, and not by a commission on or percentage of profits or turnover;

(b) salaries payable to executive Directors may not include a commission on or percentage of turnover;

(c) fees payable to Directors and any benefits payable to Directors shall be subject to annual approval by an Ordinary Resolution at a meeting of Members; and

(d) any fee paid to an alternate Director shall be agreed upon between himself and the Director nominating him and shall be paid out of the remuneration of the latter.

Clause 21.5 - Reimbursement

In addition to the remuneration provided under Clause 21.4, each Director shall be paid such reasonable travelling, hotel and other expenses as he shall incur in attending and returning from meetings of the Directors or any committee of the Directors or meeting of Members or which they may otherwise incur in connection with the business of the Company.

(ii) Clause 23.2 - Directors' borrowing powers

(a) The Directors may from time to time at their discretion raise or borrow such sums of money as they think proper and may secure the repayment of such sums in such manner and upon such terms and conditions in all respects as they think fit and in particular by the issue of bonds, perpetual or redeemable, debentures or debenture stock or any mortgage or guarantee, charge or security on the undertaking of the whole or any part of the property of the Company (both present and future), including its uncalled capital for the time being and borrow any money or mortgage or charge any of the Company's or the subsidiaries' undertaking, property, or any uncalled capital, or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of any subsidiary, associated or other companies or persons. Provided that the Directors shall not issue any debt securities convertible to ordinary shares without the prior approval of the Company in meeting of members.

(b) Any debentures, debenture stock, bonds or other securities may be issued with any special privileges as to redemption, surrender, drawings, allotment of shares, attending and voting at meeting of members of the Company, appointment of Directors and otherwise.

(c) If the Directors or any of them or any other person shall become personally liable for the payment of any sum primarily due from the Company in its ordinary course of business, the Directors may execute or cause to be executed any mortgage, charge or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Directors or other persons so becoming liable as aforesaid from any loss in respect of such liability.

(d) The Directors shall cause a proper register to be kept in accordance with Section 362 of the Act of all mortgages and charges specifically affecting the property of the Company and shall duly comply with the requirements of Section 352 of the Act as regards the registration of mortgages and charges therein specified or otherwise.

(iii) Voting of Directors

Clause 24.7 - Proceedings of meeting

A meeting of the Directors for the time being at which a quorum is present shall be competent to exercise all or any of the powers, authorities and discretion by or under the Constitution vested in or exercisable by the Directors generally. Subject to the Constitution, questions arising at any meeting of the Directors shall be decided by a majority of votes of the Directors present and each Director having 1 vote and determination by a majority of Directors shall for all purposes deemed as a decision from the Board.

Clause 24.8 - Chairman's casting vote

In case of an equality of votes, the chairman shall have a second or casting vote provided always that the chairman of a meeting at which only 2 Directors form a quorum or at which only 2 Directors are competent to vote on the questions at issue, shall not have a second or casting vote.

(iv) Share capital and variation of class rights

Clause 16.1 - Increase of share capital

The Company may from time to time, whether all the Shares for the time being issued shall have been fully called up or not, by Ordinary Resolution increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into Shares of such respective amounts and (subject to any special rights for the time being attached to any existing class of shares) to carry such preferential, deferred or other special rights (if any) or to be subject to such conditions or restrictions (if any), in regard to dividend, return of capital, voting or otherwise, as the Company by the resolution authorising such increase may direct.

Clause 16.2 - Preference Shares

Subject to the Applicable Laws and the Constitution, any preference shares may with the sanction of an Ordinary Resolution of shareholders in meeting of Members, be issued on terms that they are redeemable and/or convertible or at the option of the Company are liable to be redeemed and/or converted into ordinary shares on such terms and in such manner as may be provided for by the Constitution from time to time.

Clause 16.3 - Reservation of right to issue further

If the Company at any time issues preference capital, it shall indicate at the same time whether it reserves the right to issue further preference capital ranking equally with or in priority to preference shares already issued.

Clause 16.4 - Rights of Preference Shares

(a) A holder of preference shares must have a right to vote in each of the following circumstances:-

  (i) when the dividend or part of the dividend on the share is in arrears for more than 6 months;
  (ii) on a proposal to reduce the Company's share capital;

(iii) on a proposal for the disposal of the whole of the Company's property, business and undertaking;
(iv) on a proposal that affects the rights and privileges attached to the preference shares;
(v) on a proposal to wind up the Company; and
(vi) during the winding up of the Company.

(b) A holder of preference shares shall be entitled to the same rights as a holder of ordinary shares in relation to receiving notices, reports, audited accounts and attending meetings.

(c) The Company shall have the power to issue further preference capital ranking equally with, or in priority to, preference shares already issued subject to the observation of the provision in Clause 16.3 thereafter.

Clause 16.6 - Offer of new shares to existing Members

Subject to any direction to the contrary that may be given by the Company in meeting of Members, all new Shares or other convertible Securities shall, before issue, be offered to such persons who as at the date of the offer, are entitled to receive notices from the Company of meetings of Members, in proportion, as nearly as circumstances admit, to the amount of the existing Shares or Securities to which they are entitled. The offer shall be made by notice specifying the number of Shares or Securities offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of such time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the Shares or Securities offered, the Directors may, subject to the Constitution, dispose of those Shares or Securities in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new Shares or Securities which (by reason of the ratio which the new Shares or Securities bear to Shares or Securities held by persons entitled to an offer of new Shares or Securities), cannot, in the opinion of the Directors, be conveniently, offered under the Constitution.

Clause 17 - Variation on Rights

If at any time the share capital is divided into different classes of Shares, the rights attached to any class (unless otherwise provided by the terms of issue of the Shares of that class) may, whether or not the Company is being wound up, be varied or abrogated with the consent in writing of the holders of 75% of the issued shares of that class or with the sanction of a Special Resolution passed at a separate meeting of the holders of the Shares of that class. To every such separate meeting the provisions of the Constitution relating to meeting of Members shall *mutatis mutandis* apply so that the necessary quorum shall be 2 persons at least holding or representing by proxy at least 1/3 of the issued shares of the class and that any holder of Shares of the class present in person or by proxy may demand a poll. To every such Special Resolution the provisions of Section 292 of the Act shall apply with such adaptations as are necessary.

Alteration of Capital

Clause 15.1 - Company may alter its capital in certain ways

Subject to the Applicable Laws, the Company may from time to time by Ordinary Resolution:

(a) consolidate and divide all or any of its share capital into Shares of larger amount than its existing Shares;

(b) subdivide its share capital or any part thereof into shares of smaller amount than is fixed by the Constitution by subdivision of its existing Shares or any of them, subject nevertheless to the provisions of the Act and so that as between the resulting shares, 1 or more of such shares may, by the resolution by which such subdivision is effected, be given any preference or advantage as regards dividends, return of capital, voting or otherwise over the others or any other of such shares;

(c) cancel Shares which at the date of the passing of the resolution in that behalf have not been taken or agreed to be taken by any person or which have been forfeited and diminish the amount of its share capital by the amount of the Shares so cancelled;

(d) convert all or any of its issued Shares into stock and reconvert that stock into paid up Shares; and

(e) subject to the provisions of the Constitution and the Act, convert and/or re-classify any class of Shares into any other class of Shares.

Clause 15.2 - Power to reduce capital

The Company may by Special Resolution, reduce its share capital in any manner permitted or authorised under and in compliance with the Applicable Laws.

Clause 7.4 - Interest on share capital during construction

Where any Shares are issued for the purpose of raising money to defray the expenses of construction of any works or buildings or the provision of any plant which cannot be made profitable for a long period, the Company may pay interest or returns on the amount of such share capital as is for the time being paid up for the period and subject to the conditions and restrictions mentioned in Section 130 of the Act and may charge the same to capital as part of the cost of construction of the works or buildings or plant.

(v) Transfer of securities

Clause 11.1 - Transfer in writing and to be left at Office

For the purpose of registration of a transfer of Shares that are not Deposited Securities, every instrument of transfer which is executed in accordance with the Applicable Laws, shall be left at the Office together with such fee not exceeding RM3.00 or as the Directors may determine, where a share certificate has been issued for the Shares to be transferred, the certificate of the Shares and such other evidence as the Company may require to prove the title of the transferor or his right to transfer the Shares, and thereupon the Company shall subject to the powers vested in the Directors by this Constitution register the transferee as the Member within 30 days from receipt of such duly executed and stamped instrument of transfer.

Clause 11.2 - Transfer of securities

The transfer of any Deposited Security shall be by way of book entry by Bursa Depository in accordance with the Rules of Bursa Depository and, notwithstanding Sections 105, 106 or 110 of the Act, but subject to Section 148(2) of the Act and any exemption that may be made from compliance with Section 148(1) of the Act, the Company shall be precluded from registering and effecting any transfer of Deposited Security.

Clause 11.3 - Execution

The instrument of transfer of a Share in the Company shall be signed by or on behalf of the transferor and transferee provided that subject to compliance with the SICDA and the Rules of Bursa Depository, an instrument of transfer in respect of which the transferee is Bursa Depository shall be effective although not signed by or on behalf of Bursa Depository if it has been certified by an authorised depository agent pursuant to Section 18 of the SICDA. Subject to the Applicable Laws, the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the Register of Members in respect thereof.

Clause 11.4 - Prohibited transfer

Subject to the Constitution, the Rules of Bursa Depository and except as may be required by the Applicable Laws, there should be no restriction on the transfer of fully paid up Securities in the Company. However, no Securities shall, in any circumstances, be transferred to any infant, bankrupt or person of unsound mind.

Clause 11.5 - Directors may refuse registration of transfer

Subject to the provisions of the Act, the SICDA, the Listing Requirements and the Rules of Bursa Depository, the Directors may, in their discretion and without assigning any reason therefor, refuse to register, the transfer of any Share, not being a fully paid share, and whether or not the Company claims lien on the same.

Clause 11.6 - Closing of registration of transfers

The registration of transfers may be closed at such times and for such periods as the Directors may from time to time determine but not exceeding in the whole 30 days in any calendar year. In relation to the closure, the Company shall give written notice in accordance with the Rules of Bursa Depository to Bursa Depository to issue the relevant appropriate Record of Depositors.

Clause 11.7 - Limitation of liability

Neither the Company nor the Directors nor any of its officers shall incur any liability for authorising or causing the registering or acting upon a transfer of Securities apparently made by sufficient parties, although the same may by reason of any fraud or other cause not known to the Company or the Directors or other officers be legally inoperative or insufficient to pass the property in the securities proposed or professed to be transferred, and although transferred, the transfer may, as between the transferor and the transferee, be liable to be set aside, and notwithstanding that, the

Company may have notice that such instrument or transfer was signed or executed and delivered by the transferor in blank as to the name of the transferee of the particulars of the Securities transferred, or otherwise in defective manner. In every such case, the person registered as the transferee, his executors, administrators and assignees alone shall be entitled to be recognised as the holder of such securities and the previous holder shall, so far as the Company is concerned, be deemed to have transferred his whole title thereto.

14.3 GENERAL INFORMATION

(i) Save for the dividends paid to the shareholders of our subsidiaries in the FYEs 2018 and 2019, purchase consideration paid to Vendors for the Acquisitions as disclosed in Section 6.3 and our Directors' remuneration as disclosed in Section 5.2.4, no other amount or benefit has been paid or given within the past 2 years immediately preceding the date of this Prospectus, nor is it intended to be so paid or given, to any of our Promoters, Directors or substantial shareholders.

(ii) None of our Directors or substantial shareholders have any interest, direct or indirect, in any contract or arrangement subsisting at the date of this Prospectus and which is significant in relation to the business of our Group.

(iii) The manner in which copies of this Prospectus together with the official application forms and envelopes may be obtained and the summarised procedures for application and acceptance are set out in Section 15.

(iv) There is no limitation on the right to own Shares including limitation on the right of non-residents or foreign shareholders to hold or exercise their voting rights on our Shares.

14.4 CONSENTS

(i) The written consents of our Adviser, Sponsor, Underwriter and Placement Agent, Solicitors, Share Registrar, Company Secretaries and Issuing House to the inclusion in this Prospectus of their names in the form and context in which such names appear have been given before the issuance of this Prospectus and have not subsequently been withdrawn.

(ii) The written consents of our Auditors and Reporting Accountants to the inclusion in this Prospectus of their names, Accountants' Report and report relating to the pro forma consolidated financial information in the form and context in which they are contained in this Prospectus have been given before the issuance of this Prospectus and have not subsequently been withdrawn.

(iii) The written consent of our IMR to the inclusion in this Prospectus of its name and the IMR Report in the form and context in which they are contained in this Prospectus have been given before the issuance of this Prospectus and have not subsequently been withdrawn.

14.5 DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at our Registered Office during normal business hours for a period of 6 months from the date of this Prospectus:

(i) Constitution;

(ii) Audited financial statements of Econframe Marketing for the FYEs 2017, 2018, 2019 and FPE 2020;

(iii) Audited financial statements of Econframe Pre-Hung for the FYEs 2017, 2018, 2019 and FPE 2020;

(iv) Accountants' Report as set out in Section 12;

(v) Reporting Accountants' report relating to our pro forma consolidated financial information as set out in Section 13;

(vi) IMR Report as set out in Section 8;

(vii) Material contracts as set out in Section 6.6; and

(viii) Letters of consent as set out in Section 14.4.

14.6 RESPONSIBILITY STATEMENTS

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

M&A Securities acknowledge that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

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15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

THIS SUMMARY OF PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR ISSUE SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE "DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE" ACCOMPANYING THE ELECTRONIC COPY OF OUR PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT THE ISSUING HOUSE FOR FURTHER ENQUIRIES.

Unless otherwise defined, all words and expressions used here shall carry the same meaning as ascribed to them in our Prospectus.

Unless the context otherwise requires, words used in the singular include the plural, and vice versa.

15.1 OPENING AND CLOSING OF APPLICATION PERIOD

OPENING OF THE APPLICATION PERIOD: 10.00 A.M., 5 OCTOBER 2020

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M., 12 OCTOBER 2020

In the event of any changes to the date or time for closing, we will advertise the notice of changes in a widely circulated daily English and Bahasa Malaysia newspaper in Malaysia.

Late Applications will not be accepted.

15.2 METHODS OF APPLICATIONS

15.2.1 Retail Offering

Application must accord with our Prospectus and our Constitution. The submission of an Application Form does not mean that the Application will succeed.

Types of Application and category of investors	Application Method
Applications by our eligible Directors and employees of our Group	Pink Application Form only
Applications by the Malaysian Public:	
(i) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(ii) Non-Individuals	White Application Form only

15.2.2 Placement

Types of Application		Application Method
Applications by:		
(i)	Selected investors	The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions.
(ii)	Bumiputera investors approved by MITI	MITI will contact the Bumiputera Investors directly. They should follow MITI's instructions.

15.3 ELIGIBILITY

15.3.1 General

You must have a CDS Account and a correspondence address in Malaysia. If you do not have a CDS Account, you may open a CDS Account by contacting any of the ADAs set out in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the electronic copy of our Prospectus on the website of Bursa Securities. The CDS Account must be in your own name. Invalid, nominee or third party CDS Accounts will not be accepted for the Applications.

Only **ONE** Application Form for each category from each applicant will be considered and **APPLICATIONS MUST BE FOR AT LEAST 100 ISSUE SHARES OR MULTIPLES OF 100 ISSUE SHARES.**

MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED UNLESS EXPRESSLY ALLOWED IN THESE TERMS AND CONDITIONS. AN APPLICANT WHO SUBMITS MULTIPLE APPLICATIONS IN HIS OWN NAME OR BY USING THE NAME OF OTHERS, WITH OR WITHOUT THEIR CONSENT, COMMITS AN OFFENCE UNDER SECTION 179 OF THE CMSA AND IF CONVICTED, MAY BE PUNISHED WITH A MINIMUM FINE OF RM1,000,000 AND A JAIL TERM OF UP TO 10 YEARS UNDER SECTION 182 OF THE CMSA.

AN APPLICANT IS NOT ALLOWED TO SUBMIT MULTIPLE APPLICATIONS IN THE SAME CATEGORY OF APPLICATION.

15.3.2 Application by the Malaysian Public

You can only apply for our Issue Shares if you fulfill all of the following:

(i) You must be one of the following:

(a) a Malaysian citizen who is at least 18 years old as at the date of the application for our Issue Shares; or

(b) a corporation / institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors / trustees and if you have a share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or

(c) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.

(ii) You must not be a director or employee of the Issuing House or an immediate family member of a director or employee of the Issuing House; and

(iii) You must submit Applications by using only one of the following methods:

(a) White Application Form; or

(b) Electronic Share Application; or

(c) Internet Share Application.

15.3.3 Application by eligible Directors and employees

Our eligible Directors and employees of our Group will be provided with Pink Application Forms and letters from us detailing their respective allocation.

15.4 APPLICATION BY WAY OF APPLICATION FORM

The Application Form must be completed in accordance with the notes and instructions contained in the respective category of the Application Form. Applications made on the incorrect type of Application Form or which do not conform STRICTLY to the terms of our Prospectus or the respective category of Application Form or notes and instructions or which are illegible will not be accepted.

The FULL amount payable is RM0.28 for each Issue Share.

Payment must be made out in favour of **"TIIH SHARE ISSUE ACCOUNT NO. 695"** and crossed **"A/C PAYEE ONLY"** and endorsed on the reverse side with your name and address.

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods:

(i) despatch by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd (197101000970(11324-H))
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

(ii) **DELIVER BY HAND AND DEPOSIT** in the drop-in boxes provided at their Customer Service Centre, Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur

so as to arrive not later than 5.00 p.m. on 12 October 2020 or by such other time and date specified in any change to the date or time for closing.

We, together with the Issuing House, will not issue any acknowledgement of the receipt of your Application Forms or Application monies. Please direct all enquiries in respect of the White Application Form to the Issuing House.

15.5 APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATION

Only Malaysian individuals may apply for our Issue Shares offered to the Malaysian Public by way of Electronic Share Application.

Electronic Share Applications may be made through the ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, HSBC Bank Malaysia Berhad, Malayan Banking Berhad, Public Bank Berhad, RHB Bank Berhad and Standard Chartered Bank Malaysia Berhad (at selected branches only). A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

15.6 APPLICATION BY WAY OF INTERNET SHARE APPLICATION

Only Malaysian individuals may use the Internet Share Application to apply for our Issue Shares offered to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CIMB Bank Berhad, CIMB Investment Bank Berhad, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

The exact procedures, terms and conditions for Internet Share Application are set out on the internet financial services website of the respective Internet Participating Financial Institutions.

15.7 AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE

The Issuing House, on the authority of our Board reserves the right to:

(i) reject Applications which:

(a) do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or

(b) are illegible, incomplete or inaccurate; or

(c) are accompanied by an improperly drawn up or improper form of remittance; or