4. INFORMATION ON OUR GROUP *(CONT'D)*

No.	Nature of major approvals, licences and permits	Issuer / Authority	Licensee / Permit holder	Effective date / Date of expiry	Major conditions	Status of compliance
(17)	Certificate of fitness (Unfired Pressure Vessel – Air Receiver Tank) Registration No. MK PMT 6265	DOSH	Hayan Prints Location: No. 22A, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka (Lot 4770)	23 September 2019 to 22 March 2021[(xi)]	-	-
(18)	Certificate of fitness (Unfired Pressure Vessel – Stainless Steel Pressure Tank 15 litre) Registration No. MK PMT 4836	DOSH	Hayan Prints Location: No. 22A, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka (Lot 4770)	12 July 2019 to 9 January 2021[(xi)]	-	-
(19)	Certificate of fitness (Unfired Pressure Vessel – Stainless Steel Pressure Tank 15 litre) Registration No. MK PMT 4837	DOSH	Hayan Prints Location: No. 22A, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka (Lot 4770)	12 July 2019 to 9 January 2021[(xi)]	-	-

4. INFORMATION ON OUR GROUP *(CONT'D)*

No.	Nature of major approvals, licences and permits	Issuer / Authority	Licensee / Permit holder	Effective date / Date of expiry	Major conditions	Status of compliance
(20)	Certificate of fitness (Unfired Pressure Vessel – Air Receiver) Registration No. MK PMT 2084	DOSH	Hayan Prints Location: No. 22A, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka (Lot 4770)	18 October 2019 to 17 January 2021[(xi)]	-	-
(21)	Certificate of fitness (Unfired Pressure Vessel) Registration No. MK PMT 2815	DOSH	Hayan Prints Location: No. 22A, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka (Lot 4770)	18 October 2019 to 17 January 2021[(xi)]	-	-
(22)	Certificate of fitness (Unfired Pressure Vessel – Air Receiver Tank) Registration No. MK PMT 5509	DOSH	Hayan Prints Location: No. 28, Jalan TTC 30, Taman Teknologi Cheng, 75250 Melaka (Lot 4799)	16 January 2020 to 15 April 2021[(xi)]	-	-

4. INFORMATION ON OUR GROUP *(CONT'D)*

No.	Nature of major approvals, licences and permits	Issuer / Authority	Licensee / Permit holder	Effective date / Date of expiry	Major conditions	Status of compliance
(23)	Certificate of fitness (Unfired Pressure Vessel) Registration No. MK PMT 80446	DOSH	Hayan Prints Location: Lot 4754, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka (Lot 4754)	23 September 2020 to 22 December 2021(xi)	-	-
(24)	Certificate of fitness (Unfired Pressure Vessel – Air Receiver) Registration No. MK PMT 909	DOSH	Hayan Prints Location: Plot No. 4180, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka (Lot 4775)	23 September 2019 to 22 March 2021(xi)	-	-
(25)	Certificate of fitness (Unfired Pressure Vessel – Air Receiver) Registration No. MK PMT 1506	DOSH	Hayan Prints Location: Plot No. 4180, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka (Lot 4775)	23 September 2019 to 22 March 2021(xi)	-	-

4. INFORMATION ON OUR GROUP *(CONT'D)*

No.	Nature of major approvals, licences and permits	Issuer / Authority	Licensee / Permit holder	Effective date / Date of expiry	Major conditions	Status of compliance
(26)	Certificate of fitness (Unfired Pressure Vessel) Registration No. MK PMT 1507	DOSH	Hayan Prints Location: No. 28, Jalan TTC 30, Taman Teknologi Cheng, 75250 Melaka (Lot 4799)	23 September 2019 to 22 December 2020[xi][xii]	-	-
(27)	Certificate of fitness (Unfired Pressure Vessel – Air Receiver Tank) Registration No. MK PMT 4420	DOSH	Hayan Prints Location: Plot No. 4180, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka (Lot 4775)	23 September 2019 to 22 March 2021[xi]	-	-
(28)	Certificate of fitness (Unfired Pressure Vessel – Air Receiver Tank) Registration No. MK PMT 3919	DOSH	Envy Premium Location: No. 1-B, Jalan PK 8, Taman Perindustrian Krubong, 75250 Melaka	15 October 2020 to 14 January 2022[xi]	-	-

No.	Nature of major approvals, licences and permits	Issuer / Authority	Licensee / Permit holder	Effective date / Date of expiry	Major conditions	Status of compliance
(29)	Certificate of fitness (Unfired Pressure Vessel – Air / Vacuum / N2 Tank 500 litres) Registration No. MK PMT 81077	DOSH	Envy Premium Location: No. 1-B, Jalan PK 8, Taman Perindustrian Krubong, 75250 Melaka	4 August 2020 to 3 November 2021[(xi)]	-	-

Notes:

(i) Our Group, via Hayan Prints, started undertaking manufacturing activities at Lot 4770 in 2005. In 2006, Hayan Prints' shareholders' funds exceeded RM2.50 million. As such, pursuant to the ICA and Industrial Co-ordination Exemption Order 1976, Hayan Prints was required to obtain a manufacturing licence to conduct its manufacturing activities. As a result, our Group, via Hayan Prints, was undertaking manufacturing activities without a manufacturing licence at Lot 4770 from 2006 until it subsequently obtained a manufacturing licence, which was effective from 27 May 2009, for Lot 4770 ("**Initial Manufacturing Licence**").

Hayan Group, via Hayan Prints, started undertaking manufacturing activities at Lot 4771 in 2008. The Initial Manufacturing Licence only stipulated the address of Lot 4770. As manufacturing activities are carried out in adjoining units at Lot 4770 and Lot 4771, our Group had on 30 May 2019 applied to MIDA for the addition of the address of Lot 4771 to the Initial Manufacturing Licence. MIDA had vide its letter dated 15 July 2019 approved the addition of the address of Lot 4771 and a new manufacturing licence was issued by MITI to Hayan Prints for the adjoining units at Lot 4770 and Lot 4771.

We have not been fined or issued with any notice of non-compliance from the relevant authorities in relation to the above. Please refer to Section 5.1.6 of this Prospectus for the consequences of non-compliance with Section 3(1) of the ICA.

(ii) We have been undertaking manufacturing activities at Lot 4775 from September 2015 until January 2018 without a manufacturing licence prior to the issuance of the manufacturing licence effective from 23 January 2018.

We have not been fined or issued with any notice of non-compliance from the relevant authorities in relation to the above. Please refer to Section 5.1.6 of this Prospectus for the consequences of non-compliance with Section 3(1) of the ICA.

(iii) Our Group, via Hayan Prints, had a printing press licence for a property previously occupied by Hayan Prints at No. 12, Jalan Berkat 9, Taman Malim Jaya, 75250 Melaka ("**Tanjung Malim Premises**"). Hayan Prints had moved to Lot 4770 in January 2005 and has been undertaking printing activities at Lot 4770 from January 2005 until February 2006 without a printing press licence. Hayan Prints had subsequently obtained a letter of approval from MOHA on 28 February 2006 to change the address of its printing press licence from Tanjung Malim Premises to Lot 4770.

4. INFORMATION ON OUR GROUP *(CONT'D)*

Our Group, via Hayan Prints, commenced printing activities at Lot 4771 in May 2015. The relevant printing press licence issued to Hayan Prints at that time, which was effective from 1 March 2012, only stipulated the address of Lot 4770 ("**Existing Printing Press Licence**"). As the printing activities are carried out in adjoining units at Lot 4770 and Lot 4771, we had on 10 May 2019 applied to MOHA for the addition of the address of Lot 4771 to the Existing Printing Press Licence of Hayan Prints. MOHA had via its letter dated 9 July 2019 approved the addition of the address of Lot 4771 and the said letter supplements the Existing Printing Press Licence.

We have not been fined or issued with any notice of non-compliance from the relevant authorities in relation to the above. Please refer to Section 5.1.6 of this Prospectus for the consequences of non-compliance with Section 3(1) of the PPPA.

(iv) Pursuant to Section 7 of the Printing Presses and Publications (Amendment) Act 2012 ("**Amendment Act**"), a licence or permit that has been granted and is valid at the date of coming into operation of the Amendment Act shall remain valid for so long as it is not revoked, notwithstanding its expiry date. The Amendment Act had come into force on 15 July 2012 prior to the expiry date (28 February 2013) of the printing press licence issued to Hayan Prints. As such, the printing press licence issued to Hayan Prints remains valid unless otherwise revoked.

(v) We have been undertaking printing activities at Lot 4754 since April 2018 prior to the issuance of printing press licence which commenced on 12 March 2019.

We have not been fined or issued with any notice of non-compliance from the relevant authorities in relation to the above. Please refer to Section 5.1.6 of this Prospectus for the consequences of non-compliance with Section 3(1) of the PPPA.

(vi) We had on 27 November 2019, 9 December 2019 and 9 September 2020 notified MITI and MIDA on the following:

(a) disposal of an aggregate of 2,234,201 ordinary shares in Hayan Prints by Kok Hon Seng, Lau Tee Tee @ Lau Kim Wah, Ng Soh Hoon and Chong Fea Chin to Aurora Meadow; and

(b) disposal of 3,000,000 ordinary shares in Hayan Prints, representing the entire issued share capital of Hayan Prints, by the Hayan Prints Vendors to our Company.

(vii) As at the LPD, Hayan Prints has yet to comply with the condition (which is an on-going condition and no specified timeline is given to comply with this condition) that at least 80% of additional full-time employees consist of Malaysian citizens. This is due to the increasing demand for labour for our Group's business and the shortage of Malaysian workers.

To comply with this condition, our Group had undertaken various efforts such as (i) offering salaries above the minimum wage; and (ii) working with vocational colleges for internship programmes and subsequently hiring some of these intern students as our full-time employees, further details as follows:

	FYE 2018	FYE 2019	FYE 2020
No. of intern students	45	27	29
No. of intern students hired as full-time employees	9	3	5
Intake rate (%)	20.00	11.11	17.24

As Hayan Prints intended to hire additional foreign workers to meet such demand, it had on 30 September 2019 applied to MIDA to seek an extension of time to comply with this condition. MIDA had via its letter dated 31 October 2019 acknowledged Hayan Prints' difficulties in complying with this condition and advised Hayan Prints to contact and discuss the difficulties with the Department of Labour Peninsular Malaysia. We had contacted the Department of Labour Peninsular Malaysia subsequently and Hayan Prints was advised and will, as requested, participate in job fairs organised by the Ministry of Human Resources Malaysia to recruit Malaysian workers.

In the event the condition above is not satisfied, MIDA may take action by issuing warnings, imposing penalties, suspending the licences, permits or approvals, reducing the term, imposing additional conditions or restrictions and/or revoking the licences for any breach or non-compliance of conditions. Please refer to Section 5.1.6 of this Prospectus for the consequences of non-compliance with regulatory requirements for our business operations.

(viii) Hayan Prints had on 30 September 2019 applied to MIDA to seek for an extension of time to comply with this condition. MIDA had via its letter dated 31 October 2019 acknowledged Hayan Prints' difficulties in complying with this condition and advised Hayan Prints to contact and discuss the difficulties with the Department of Labour Peninsular Malaysia. We had contacted the Department of Labour Peninsular Malaysia subsequently and Hayan Prints was advised and will, as requested, participate in job fairs organised by the Ministry of Human Resources Malaysia to recruit Malaysian workers. Hayan Prints will endeavour to comply with this condition by recruiting more Malaysian workers and participate in job fairs organised by the Ministry of Human Resources Malaysia.

Subsequent to the above, Hayan Prints had on 26 November 2020 applied to MIDA to seek for an extension of time of up to 31 December 2022 to comply with this condition. As at the date of this Prospectus, the decision from MIDA is currently pending.

In the event Hayan Prints is unable to comply with this condition by year 2020 or if the extension of time application is not approved by MIDA, MIDA may take action by issuing warnings, imposing penalties, suspending the licences, permits or approvals, reducing the term, imposing additional conditions or restrictions and/or revoking the licences for any breach or non-compliance of conditions. Please refer to Section 5.1.6 of this Prospectus for the consequences of non-compliance with regulatory requirements for our business operations.

(ix) As at the LPD, Hayan Prints has yet to comply with this condition. In the event Hayan Prints is unable to comply with this condition by 31 December 2022, it intends to apply to MIDA to review this condition and/or apply for an extension of time. MIDA may, however, take action by issuing warnings, imposing penalties, suspending the licences, permits or approvals, reducing the term, imposing additional conditions or restrictions and/or revoking the licences for any breach or non-compliance of conditions.

In the event the condition above is not satisfied, MIDA may take action by issuing warnings, imposing penalties, suspending the licences, permits or approvals, reducing the term, imposing additional conditions or restrictions and/or revoking the licences for any breach or non-compliance of conditions. Please refer to Section 5.1.6 of this Prospectus for the consequences of non-compliance with regulatory requirements for our business operations.

(x) As at the LPD, Envy Premium has yet to comply with this condition. To comply with this condition, our Group had on 13 January 2020 informed MIDA of our plan to expand our rigid box business by acquiring an additional rigid box production line, which is estimated to cost approximately RM0.70 million. We intend to fund this acquisition via a combination of bank borrowings and internally generated funds. However, the acquisition of this additional rigid box production line was delayed as a result of the COVID-19 pandemic and imposition of the MCO. Notwithstanding this, in view of the improving prospects for the Consumer E&E and food and beverage industries as disclosed in Section 4.25.3 of the Prospectus, our Group is expected to proceed with this acquisition in the next 6 months. Please refer to Section 4.25 of this Prospectus for further details of our Group's business strategies and future plans.

In the event the condition above is not satisfied, MIDA may take action by issuing warnings, imposing penalties, suspending the licences, permits or approvals, reducing the term, imposing additional conditions or restrictions and/or revoking the licences for any breach or non-compliance of conditions. Please refer to Section 5.1.6 of this Prospectus for the consequences of non-compliance with regulatory requirements for our business operations.

(xi) Pursuant to Section 19(1) of the FAMA, no one shall operate any machinery in respect of which a CF is prescribed unless there is a valid CF. Pursuant to Regulation 10(1) of the Factories and Machinery (Notification, Certificate of Fitness and Inspection) Regulations 1970, the owner of an unfired pressure vessel must hold a valid CF so long as the machinery remains in service. Each CF is usually valid for 15 months from the date of inspection by DOSH. We had CF for each of the unfired pressure vessels when we first operated the unfired pressure vessels. However, there have been, from time to time, lapses in renewals of CFs.

As at the LPD, we have 24 unfired pressure vessels which are used for our operations. Save for the 9 unfired pressure vessels which are exempted from the requirement of CF pursuant to the Factories and Machinery (Exemption of Certificate of Fitness for Unfired Pressure Vessel) Order 2017, we have a valid CF for the remaining 15 of our unfired pressure vessels.

We have not been fined or issued with any notice of non-compliance from the relevant authorities in relation to the above. Please refer to Section 5.1.6 of this Prospectus for the consequences of non-compliance with Section 19(1) of the FAMA.

(xii) We have submitted the application to renew the CF for unfired pressure vessel bearing the registration No. MK PMT 1507 on 12 November 2020, which is currently pending approval.

(xiii) There is no expiry date stipulated in the letter of approval from the Royal Malaysian Customs Department dated 9 March 2018 for addition of storage premises to store imported raw materials which are exempted from import duty.

In the past, our Group did not have standard operating procedures to manage our licences, permits and approvals in a structured manner. As at the LPD, our Group has adopted standard operating procedures to manage all our licences, permits and approvals where key senior personnel have been identified to ensure that our Group has all the relevant and valid licences, permits and approvals required for our business operations.

4.23 DESIGN AND DEVELOPMENT FOR PRINTING AND PRODUCT STRUCTURE

We recognise the importance of design and development ("**D&D**") for us to remain competitive and to sustain the continuous growth of our business. Our D&D efforts are focused on the modification of printing techniques and approaches, as well as modification of product structure designs (e.g. outer image and inner structural design) (where required) to improve the packaging attractiveness and achieve cost effective printing costs.

We conduct D&D to modify our printing techniques and approaches as and when is needed to achieve the desired outcome in accordance with our customers' requirements. We also work closely with our ink suppliers to alter certain specifications of the ink such as oiliness and viscosity to achieve the required finishing for our packaging. Our D&D efforts have enabled us to improve our printing qualities.

As part of our D&D, we provide advice and recommendation on product structure designs to our customers to achieve cost effective printing without compromising on printing quality because the structural design of the packaging can be altered to enable the packaging production process to suit the features of the machines, thus reducing the time spent on manual adjustments or wastages of raw materials. For example, post-press processes (e.g. gluing) can be expedited by altering gluing points of the packaging to enable the gluing process to be automated with our machines, thus eliminating the need for manual gluing. We are also able to assist our customers to automate their packing processes by adjusting folding lines on the packaging to suit the features of their packing machines. Further, we are also able to optimise the positioning of the printing area of the packaging by altering the gluing or folding lines of the packaging, thus reducing paper wastage.

Our D&D activities are led by our Executive Director / Group Managing Director, Kok Hon Seng, and supported by the supervisors from various operational departments.

4.24 TECHNOLOGIES

We employ the following technologies in the printing and production of our paper-based packaging:

Technology	Description
Offset printing	A printing method where inked image from a printing plate is transferred onto a rubber blanket and subsequently onto the printing substrate (i.e. paperboards or art papers). Offset printing was developed based on the fundamental principle that oil-based ink is not water-soluble and therefore unable to mix with water. Offset printing begins with plate making, where artwork will be formed on a printing plate. A layer of ink-accepting coating is applied onto the printing area of the printing plate, leaving the non-printing area unable to be coated with ink. During press, the printing plate will be placed on the plate cylinder. As the plate cylinder rotates, the non-printing area will be coated with water and the printing area will be coated with ink. Subsequently, the printing plate is pressed onto the blanket cylinder, and the image on the blanket cylinder is transferred (or "offset") onto the paperboards or art papers.
CTP	A printing plate making method where printing images are lasered directly from the computer file onto the printing plate. It is more advanced and efficient compared to computer-to-film-to-plate as it eliminates the film step.
Digital colour proof software	A colour proof software with an International Colour Consortium (ICC) profile that integrates proof printing with the GMG colour proofing management system which allows calibration of colours from different design software.
Calibrated colour LCD monitor	Calibrated colour LCD monitor (Eizo monitor) is an LCD monitor with hardware calibration features used to provide consistent and predictable colour in pre-press. It is used in our pre-press process to facilitate the adjustment of our artwork according to the colour specifications given by our customers.
X-Rite densitometer	An equipment used for comparing density measurements against the approved requirements. We use the X-Rite densitometer to perform colour check on the paper-based packaging on sampling basis against the approved sample to ensure the paper-based packaging complies with the packaging and QC requirements.

4.25 BUSINESS STRATEGIES AND FUTURE PLANS

4.25.1 We intend to increase our printing capacity by acquiring 2 additional standard format printing machines

We plan to increase our printing capacity to cater for the growing demand for our paper-based packaging. With the additional printing capacity, we will be able to accept more printing orders and better position our Group to meet the growing needs of our customers in a timely manner, which will in turn allow us to generate higher revenue and improve our financial performance, after having considered the costs relating to the additional printing machines such as depreciation, maintenance costs and operators' salaries.

We intend to acquire 2 additional standard format printing machines equipped with online coating feature which allow us to print artwork on paperboards or art papers of sizes up to 730mm x 1,020mm in the next 2 years. Further, the identified printing machines have more advanced features, such as integrated control systems, colour management and automatic register adjustment as well as automatic blanket cylinder cleaners. The addition of these standard format printing machines is expected to increase our printing capacity, improve printing quality and colour accuracy, reduce printing defects and wastage and will automate blanket cleaning, amongst others.

As at the LPD, we have a total of 6 standard format printing machines, 5 of which are being used for printing and production and 1 for training purposes. Our annual printing capacity based on our FYE 2020 production schedule is 86,068,125 pieces, assuming that we were operating 5 standard format printing machines throughout the FYE 2020 and that there were no disruptions to Hayan Prints' operations due to the MCO. As per Section 2.7 of this Prospectus, we propose to acquire 2 standard format printing machines and also to dispose off 1 of our existing standard format printing machines.

Subsequent to the aforementioned acquisition and disposal, we will have a total of 7 standard format printing machines (6 of which to be used for printing and production and 1 for training purposes). Our annual printing capacity is expected to increase by approximately 20.00% to 103,281,750 pieces based on 6 standard format printing machines which are being used for printing and production and our FYE 2020 production schedule. As a result of the increase in capacity, our utilisation rate is expected to decrease accordingly to approximately 73.70%, calculated based on our FYE 2020 production schedule and after taking into consideration that our Group had acquired an additional standard format printing machine in October 2019 with the commencement of mass printing activities only in January 2020 as well as the disruption to Hayan Prints' operations due to the MCO.

Please refer to Section 4.27.4 of this Prospectus for further details on our printing and production capacity and output.

The total estimated cost of purchasing these printing machines is approximately RM12.29 million, which we intend to fund from the proceeds raised from the Public Issue. We have paid cash deposits of approximately RM0.60 million for the acquisition of a new standard format printing machine which cost JPY153.00 million (equivalent to approximately RM6.04 million based on the actual exchange rate of RM3.95: JPY100 on the transaction date) in August 2020. The remaining balance for the acquisition of this standard format printing machine amounting to approximately RM5.44 million is expected to be paid by end of 2020 to facilitate the delivery and installation of this printing machine by first quarter of 2021. In the event of any potential delay in our Listing, we will draw down the Bridging Loan (as defined in Section 2.7.1(a) of this Prospectus) to pay for the said remaining balance and upon receipt of the proceeds raised from the Public Issue, the amount allocated for the acquisition of this standard format printing machine will be utilised to repay the Bridging Loan.

4.25.2 We intend to continue to expand our rigid box business by acquiring an additional rigid box production line

We have been producing rigid boxes for high-end Consumer E&E products since December 2018. Our rigid boxes are commonly used in high-end Consumer E&E products and premium food and beverage products such as bird's nest drink. As at the LPD, we have 1 production line for the production of rigid boxes. In the FYE 2020, the utilisation rate was approximately 69.52%.

Moving forward, we intend to expand our rigid box business by acquiring an additional rigid box production line in the next 6 months. This will double our production capacity and allow us to secure more rigid box production orders which would enable us to grow our sources of revenue and improve our financial performance.

According to the IMR Report, the Consumer E&E industry in Malaysia, measured by its manufacturing sales value grew from RM38.60 billion in 2016 to RM39.28 billion in 2018 at a CAGR of 0.88% and declined slightly to RM37.88 billion in 2019. In view of the outbreak of the COVID-19 in early 2020, the Government has revised GDP forecast growth in 2020, which was initially targeted at the range of -2.0% to 0.5%, to the range of -3.5% to -5.5%, indicating potential adverse economic conditions for the year which may negatively impact the manufacturing activities and demand for consumer products and in turn affect demand for packaging printing. However, as the economic condition in Malaysia is expected to recover in 2021 as reflected in Bank Negara Malaysia's forecast of GDP growth range of 5.50% to 8.00% in 2021, businesses, employment and consumer purchasing power are expected to recover and the demand for higher value-added products with quality packaging is expected to normalise to pre-COVID-19 levels. In view of the above, we foresee the demand for rigid boxes which are used for high-end Consumer E&E products will increase.

Further, with the increase of production capacity after acquiring the additional rigid box production line, we also intend to secure rigid box production orders for food and beverage products, such as health beverages. According to the IMR Report, the food and beverage manufacturing industry in Malaysia grew from RM2.15 billion in 2016 to RM2.61 billion in 2019 at a CAGR of 6.68%. During the MCO, conditional MCO and recovery MCO periods, the demand for food products has continued to remain stable as these are essential items, which sustained the demand for packaging printing for these products. The demand for groceries and takeaway meals increased during the MCO period as consumers were not allowed to dine-in at any eateries, leading to a behavioural shift to cooking at home or having takeaway meals which in turn led to an increase in demand for food packaging and takeaway packaging. Further, even when the MCO, conditional MCO and recovery MCO are lifted, many consumers may still remain cautious and continue to practise physical distancing, and prefer to have home-cooked meals or order takeaway to minimise dining at eateries to avoid the risk of being infected with the COVID-19 until the outbreak ends. This is expected to continue to drive the demand for food packaging and takeaway packaging in the near future. In view of the above, we foresee the demand for rigid boxes packaging which are used for food and beverage products will grow over the long term.

As such, we anticipate that our involvement in the rigid boxes business will grow and hence improve our financial performance.

The total estimated cost to purchase the additional rigid box production line is approximately RM0.70 million, which we intend to fund via a combination of bank borrowings and internally generated funds.

4.25.3 We intend to expand our reach to a wider customer base in local and overseas markets by increasing our marketing initiatives

Our Group's principal market is Malaysia. Besides serving our customers in Malaysia, we also export our paper-based packaging to Singapore, Thailand, the Philippines, Myanmar, USA and Germany for the FY Under Review. Our overseas revenue accounted for approximately 6.42%, 5.64% and 27.56% of the total revenue in the FY Under Review, respectively.

We anticipate that there are opportunities in the global markets as well as the northern and southern regions in Malaysia given our packaging printing experience and our track record. The demand for packaging printing globally is expected to be supported by demand for consumer goods including, amongst others, Consumer E&E, food and beverages and pharmaceuticals. This is because packaging plays a significant role in the preservation and protection from physical damage of consumer products, and it is also used to provide aesthetics and brand appeal. As such, we see opportunities to grow and expand our paper-based packaging printing business in these sectors overseas. We have in the past, received enquiries originating from China and Taiwan for our products.

We intend to begin our local and overseas marketing initiatives to increase exposure and promote awareness of Hayan Group to brand owners, contract manufacturers and packaging solutions providers in the local and overseas markets. We plan to participate in local and overseas tradeshows and exhibitions where we would be able to network, present and pitch ourselves to brand owners of Consumer E&E products, pharmaceutical products, sheath contraceptive products and food and beverage manufacturers, as well as packaging solutions providers. As at the LPD, we have identified the following events and exhibitions that we plan to participate annually in the next 3 years:

Tradeshows/ exhibitions	Expected location
Malaysia International Halal Showcase	Kuala Lumpur, Malaysia
Food & Hotel Asia (FHA) – Food & Beverage	Singapore
Food & Hotel Indonesia (FHI) – International Hotel, Catering Equipment, Food & Drink Exhibition	Jakarta, Indonesia
Indonesia International Electronics, Components and Technology Exhibition	Jakarta, Indonesia
Processing and Packaging Exhibition for Asia	Bangkok, Thailand

With our proposed participation in these local and overseas tradeshows and exhibitions, our market presence is expected to increase in the coming years.

The total estimated cost for these tradeshows and exhibitions is RM2.00 million, which we intend to fund from the proceeds raised from our Public Issue.

We intend to hire 2 Marketing Managers to oversee and manage our local and overseas marketing activities. The estimated cost to employ 2 Marketing Managers is RM0.20 million per annum. Further, we intend to also expand our sales, marketing and customer service team by recruiting additional 3 employees to enable us to have additional manpower and dedicated employees to focus on our Group's branding and marketing initiatives and improve our customer service level. The estimated cost to employ the additional employees for the sales, marketing and customer service team is RM0.08 million per annum. The total hiring costs of approximately RM0.28 million for the Marketing Managers and additional employees for our sales, marketing and customer service team will be funded via internally generated funds.

4.26 MATERIAL CONTRACTS

Save as disclosed below, there are no contracts which are or may be material, not being contracts entered into in the ordinary course of business, that have been entered into by our Group within the FY Under Review up to the date of this Prospectus:

(i) sale and purchase agreement dated 23 August 2017 entered into between Hayan Prints and Chan Ding Miao, Chan Kuan Hua, Esther, Jeffrey Tay Chun Hao, Tay Seong Meng and Teh Ting Ting for the purchase of a piece of land with double storey workshop/ office erected thereon held under PN20069, Lot 4776, Mukim Cheng, District of Melaka Tengah, State of Melaka containing an area of approximately 2,040 sq. m. and bearing the postal address of No. 12, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka for a cash consideration of RM2.05 million. This sale and purchase agreement has been completed and Hayan Prints was registered as the owner on 22 February 2018;

(ii) sale and purchase agreement dated 14 September 2018 entered into between Hayan Prints and EL Aluminium Billet (M) Sdn Bhd (formerly known as Eng Liang Glass & Aluminium (M) Sdn Bhd) for the purchase of a piece of land with a unit of factory erected thereon held under PN 20099, Lot 4799, Mukim Cheng, District of Melaka Tengah, State of Melaka bearing the postal address of No. 28, Jalan TTC 30, Taman Teknologi Cheng, 75250 Melaka for a cash consideration of RM5.20 million. This sale and purchase agreement has been completed and Hayan Prints was registered as the owner on 9 April 2019;

(iii) share sale agreement dated 29 November 2018 entered into between Hayan Prints and Ng Soh Hoon, Teng Tiang Chia, Teng Chee Kang, Teng Chee Khoon and Aurora Meadow to acquire 360,000 ordinary shares in Envy Premium for a cash consideration of RM327,600. This share sale agreement has been completed on 26 December 2018;

(iv) shareholders' agreement dated 26 December 2018 entered into between Envy Premium, Hayan Prints, Lim Soon Guan, Ng Peng Hup, Mah Chen Wah, Siew Choon Moi, Lee Kuei Yong and Lim Ze Wei. The salient terms of the shareholders' agreement are as follows:

(a) Business

The shareholders of Envy Premium ("**Shareholders**") jointly agree to cause Envy Premium to engage in the business of manufacturing of other articles of paper and paperboard ("**Business**").

(b) Directors and Chairman

(aa) Envy Premium shall consist of a maximum of 3 directors, of which 2 directors shall be appointed by Hayan Prints.

(bb) One of the directors appointed by Hayan Prints shall be the chairman of the board of directors of Envy Premium.

(c) Pre-Emption Rights

All additional new shares to be issued by Envy Premium ("**New Envy Premium Shares**") must be offered to all Shareholders in proportion to their respective shareholdings in Envy Premium immediately prior to such issue.

(d) Restriction

The Shareholders must, as long as they are a shareholder of Envy Premium, not do or agree to do any of the following without first notifying the other Shareholders:

(aa) sell, transfer or dispose of, or grant any option over, any of their Envy Premium shares or any right over or interest in or derivative of any of their Envy Premium shares;

(bb) pledge, mortgage, charge or encumber any of their Envy Premium Shares or any right over or interest in or derivative of any of their Envy Premium shares; or

(cc) enter into any agreement in respect of any of the votes attached to any of their Envy Premium shares.

(e) Right of First Refusal

(aa) If any Shareholder wishes to sell, transfer or dispose any or all of its Envy Premium shares ("**Envy Premium Offer Shares**"), or any interest attached to the Envy Premium shares, to any third party ("**Envy Premium Selling Shareholder**"), it must, as soon as practical, deliver a written notice ("**Offer Notice**") to the other Shareholder(s) to notify it of its right to purchase the Envy Premium Offer Shares ("**Offer**").

(bb) Upon receipt of the Offer Notice, any other Shareholder may, within 14 business days from but excluding the date of delivery of the Offer Notice ("**Offer Period**"), offer to purchase such number of Envy Premium Offer Shares which are proportionate to their respective shareholdings in Envy Premium immediately prior to such Offer at the price offered by the third-party purchaser, if any ("**Sale Price**") by delivering a written notice ("**Purchase Notice**") to the Envy Premium Selling Shareholder (with a copy to Envy Premium).

(cc) If any Shareholder does not make an Offer in accordance with paragraph (bb) above upon expiry of the Offer Period, each of the other Shareholders shall be entitled to make an Offer to purchase all or part of such remaining Envy Premium Offer Shares at the Sale Price.

(dd) The Purchase Notice shall be irrevocable once delivered, except with the written consent of the Envy Premium Selling Shareholder.

(ee) In the event a Purchase Notice is not delivered in accordance with the terms of the Shareholders' Agreement, the Shareholder shall be deemed to have unconditionally waived its right to make the Offer or to purchase the Envy Premium Offer Shares and the Envy Premium Selling Shareholder will be entitled to sell, transfer or otherwise dispose or deal with the Envy Premium Offer Shares or any interest attached to the Envy Premium Offer Shares without any restrictions whatsoever.

(f) Non-Competition

Each of the Shareholders undertakes that as long as they are a shareholder of Envy Premium, it shall not (either personally or through an agent), without the prior written consent of the remaining Shareholders, whether directly or indirectly, and whether alone or in conjunction with, or on behalf of, any other person and whether in any capacity:

(aa) be directly or indirectly employed, concerned, interested or engaged in any business which is the same or similar to the Business or which competes with or is reasonably likely to be in direct or indirect competition with the Business;

(bb) be directly or indirectly carry on for its own account either alone or in partnership with any business which is the same or similar to the Business or which competes with or is reasonably likely to be in substantial competition with the Business or be concerned or interested in any such business, save for the holding of or trading in less than 5% equity interest of a corporation which is listed on any stock exchange;

(cc) be directly or indirectly canvass, solicit or approach or cause to be canvassed, solicited or approached, for custom any person who is or was a customer of Envy Premium where the custom relates to services or products in competition with the Business;

(dd) be directly or indirectly induce or seek to induce any person who is a director, an employee, consultant or contractor of Envy Premium to become employed, whether as employee, consultant or otherwise, by Shareholders or by any person, firm or company engaged in any business which is the same or similar to the Business or competes with or is reasonably likely to be in substantial competition with the Business;

(ee) deal or contract with or perform any work for any person who is or was a customer of Envy Premium or in the habit of dealing with Envy Premium where the orders or custom relate to services or products which are competitive with or of the type supplied or provided by Envy Premium; or

(ff) interfere or seek to interfere with the continuance of supplies or services to Envy Premium from any supplier where such interference causes or would cause that supplier to cease supplying, or materially reduce its supply of, those goods and/or services to Envy Premium.

(v) subscription agreement dated 18 October 2019 entered into between Hayan Prints and Envy Premium for the subscription of 321,360 ordinary shares in Envy Premium for a cash consideration of RM658,788. This subscription agreement has been completed on 18 October 2019;

(vi) share sale agreement dated 11 November 2019 entered into between our Company and the Hayan Prints Vendors in relation to the Hayan Prints Acquisition, as supplemented by a letter dated 7 August 2020 to Hayan Prints Vendors to extend the condition period to 31 January 2021 to fulfil the conditions precedent for this share sale agreement. This share sale agreement has been completed on 30 November 2020;

4. INFORMATION ON OUR GROUP *(CONT'D)*

(vii) share sale agreement dated 11 November 2019 entered into between our Company and the Hayan Packaging Vendors in relation to the Hayan Packaging Acquisition, as supplemented by a letter dated 7 August 2020 to Hayan Packaging Vendors to extend the condition period to 31 January 2021 to fulfil the conditions precedent for this share sale agreement. This share sale agreement has been completed on 30 November 2020; and

(viii) the Underwriting Agreement, further details of which are set out in Section 2.9 of this Prospectus.

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4. INFORMATION ON OUR GROUP *(CONT'D)*

4.27 PROPERTY, PLANT AND EQUIPMENT

4.27.1 Material Properties Owned by Our Group

The material properties owned by our Group are as follows:

No.	Title / Postal address	Registered owner / Beneficial owner	Description / Existing use	Express conditions / Category of land use	Restrictions in interests / Encumbrances	Land Area / Built-up area (Approximate)	Tenure / Date of expiry of lease	Date of issuance of CF / CCC	NBV as at 31 May 2020 (RM'000)
(1)	Title: PN 20050, Lot 4770, Mukim Cheng, Daerah Melaka Tengah, Negeri Melaka Postal address: 22A, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka	Hayan Packaging	Description: 1 unit of double storey office together with single storey detached factory* Existing use: Factory and office	Express conditions: For industrial use only Category of land use: Industrial	Restrictions in interests: This land cannot be transferred or charged without the consent of the State Authority. The first purchaser is exempted from the restriction in interest. Encumbrances: Charged to Maybank Islamic Berhad	<u>Lot 4770</u> Land Area: 28,901.10 sq. ft. <u>Lot 4771</u> Land Area: 27,889.29 sq. ft. <u>Lots 4770 & 4771</u> Built-up Area: 39,037.00 sq. ft.	99 years expiring on 14 August 2096 (remaining tenure 76 years)	24 January 2005(i)	1,534
(2)	Title: PN 20051, Lot 4771, Mukim Cheng, Daerah Melaka Tengah, Negeri Melaka Postal address: 22, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka	Hayan Packaging	Description: 1 unit of single storey detached factory* together with warehouse Existing use: Factory and warehouse(v)	Express conditions: For industrial use only Category of land use: Industrial	Restrictions in interests: This land cannot be transferred or charged without the consent of the State Authority. The first purchaser is exempted from the restriction in interest. Encumbrances: Charged to Maybank Islamic Berhad		99 years expiring on 14 August 2096 (remaining tenure 76 years)	6 April 2005(i)	1,176

4. INFORMATION ON OUR GROUP *(CONT'D)*

No.	Title / Postal address	Registered owner / Beneficial owner	Description / Existing use	Express conditions / Category of land use	Restrictions in interests / Encumbrances	Land Area / Built-up area (Approximate)	Tenure / Date of expiry of lease	Date of issuance of CF / CCC	NBV as at 31 May 2020 (RM'000)
(3)	Title: PN 20009, Lot 4754, Mukim Cheng, Daerah Melaka Tengah, Negeri Melaka Postal address: No. 38, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka	Hayan Prints	Description: 1 unit of single storey detached factory Existing use: Factory	Express conditions: For industrial use only Category of land use: Industrial	Restrictions in interests: This land cannot be transferred or charged without the consent of the State Authority. The first purchaser is exempted from the restriction in interest. Encumbrances: Charged to CIMB Bank Berhad	Land Area: 27,501.80 sq. ft. Built-up Area: 11,322.02 sq. ft.	99 years expiring on 14 August 2096 (remaining tenure 76 years)	22 May 2018	3,081
(4)	Title: PN 20038, Lot 4763, Mukim Cheng, Daerah Melaka Tengah, Negeri Melaka Postal address: Lot No. 37, Jalan TTC 29, Taman Teknologi Cheng, 75250 Melaka	Hayan Prints	Description: 1 unit of single storey detached factory together with 3 storey office Existing use: Factory	Express conditions: For industrial use only Category of land use: Industrial	Restrictions in interests: This land cannot be transferred or charged without the consent of the State Authority. The first purchaser is exempted from the restriction in interest. Encumbrances: Charged to CIMB Bank Berhad	Land Area: 21,517.06 sq. ft. Built-up Area: 15,055.27 sq. ft.	99 years expiring on 14 August 2096 (remaining tenure 76 years)	1 August 2019	2,658

4. INFORMATION ON OUR GROUP *(CONT'D)*

No.	Title / Postal address	Registered owner / Beneficial owner	Description / Existing use	Express conditions / Category of land use	Restrictions in interests / Encumbrances	Land Area / Built-up area (Approximate)	Tenure / Date of expiry of lease	Date of issuance of CF / CCC	NBV as at 31 May 2020 (RM'000)
(5)	Title: PN 20069, Lot 4776, Mukim Cheng, Daerah Melaka Tengah, Negeri Melaka Postal address: No. 12, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka	Hayan Prints	Description: 1 unit of single storey detached factory together with warehouse and 1 unit of double storey office Existing use: Warehouse(vi)	Express conditions: For industrial use only Category of land use: Industrial	Restrictions in interests: This land cannot be transferred or charged without the consent of the State Authority. The first purchaser is exempted from the restriction in interest. Encumbrances: Charged to Malayan Banking Berhad	Land Area: 21,958 sq. ft. Built-up Area: 14,815.02 sq. ft.	99 years expiring on 14 August 2096 (remaining tenure 76 years)	15 February 2007(ii)	2,666
(6)	Title: PN 20066, Lot 4775, Mukim Cheng, Daerah Melaka Tengah, Negeri Melaka Postal address: No. 14, Jalan TTC 28, Taman Teknologi Cheng, 75250 Melaka	Big Tree Realty	Description: 1 unit of single storey detached factory together with warehouse and office Existing use: Factory and warehouse(vii)	Express conditions: For industrial use only Category of land use: Industrial	Restrictions in interests: This land cannot be transferred or charged without the consent of the State Authority. The first purchaser is exempted from the restriction in interest. Encumbrances: Nil	Land Area: 22,249.00 sq. ft. Built-up Area: 9,881.27 sq. ft.	99 years expiring on 14 August 2096 (remaining tenure 76 years)	24 January 2005(iii)	1,009

4. INFORMATION ON OUR GROUP *(CONT'D)*

No.	Title / Postal address	Registered owner / Beneficial owner	Description / Existing use	Express conditions / Category of land use	Restrictions in interests / Encumbrances	Land Area / Built-up area (Approximate)	Tenure / Date of expiry of lease	Date of issuance of CF / CCC	NBV as at 31 May 2020 (RM'000)
(7)	Title: PN 20099, Lot 4799, Mukim Cheng, Daerah Melaka Tengah, Negeri Melaka Postal address: No. 28, Jalan TTC 30, Taman Teknologi Cheng, 75250 Melaka	Hayan Prints	Description: 1 unit of single storey detached factory together with office Existing use: Factory and warehouse[(viii)]	Express conditions: For industrial use only Category of land use: Industrial	Restrictions in interests: This land cannot be transferred or charged without the consent of the State Authority. The first purchaser is exempted from the restriction in interest. Encumbrances: Charged to United Overseas Bank (Malaysia) Bhd	Land Area: 51,871.28 sq. ft. Built-up Area: 28,481.31 sq. ft.	99 years expiring on 14 August 2096 (remaining tenure 76 years)	19 March 2007[(iv)]	6,024
Total									**18,148**

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4. INFORMATION ON OUR GROUP *(CONT'D)*

Notes:

* The single storey detached factory is built across adjoining Lot 4770 and Lot 4771.

(i) Our Group had built temporary additional structures at the factories located at Lot 4770 and Lot 4771 to ease the operations between these 2 locations as they are adjoining units. The temporary additional structures are used to store carton boxes and die-cut blocks.

The appointed architect had, on 18 October 2018, on behalf of our Group applied to MBMB to seek its approval for the temporary additional structures and MBMB had via its letter dated 3 January 2019 granted the "pemutihan" (whitewash) permit for the temporary additional structures built on Lot 4770 and Lot 4771. The "pemutihan" permit was valid until 31 December 2019 and subject to annual renewal as well as fees payable to MBMB. MBMB had also imposed a fine amounting to RM1,864.50 on our Group for building the temporary additional structures without prior approval and we had paid the fine on 17 December 2018. We had also paid the permit and "plet" (plate) fees of RM3,545.00 and RM50.00, respectively on 17 December 2018. The "pemutihan" permit has been renewed and will be valid until 31 December 2021.

Save for the above fine, we have not been issued with any notice of non-compliance from the relevant authorities in relation to the above.

As our Group has not experienced any rejection for renewal of "pemutihan" permit for the temporary additional structures in the past, the likelihood of "pemutihan" permit for the temporary additional structures not being renewed by MBMB is low. In the event that the "pemutihan" permit for the temporary additional structures is not renewed by MBMB, our Group will remove the temporary additional structures and relocate the storage of carton boxes and die-cut blocks to other locations. Therefore, the non-renewal risk of the "pemutihan" permit is not expected to have material effect to our Group.

(ii) Our Group had built temporary additional structures at the factory in Lot 4776 to store raw materials.

The appointed architect had, on 23 September 2019, on behalf of our Group applied to MBMB to seek its approval for the temporary additional structures and MBMB had via its letter dated 25 November 2019 granted the permit for the temporary additional structures built on Lot 4776. The permit was valid until 31 December 2020 and subject to annual renewal as well as fees payable to MBMB. MBMB had also imposed a fine amounting to RM1,483.50 on our Group for building the temporary additional structures without prior approval and we had paid the fine on 15 November 2019. We had also paid the permit and "plet" (plate) fees of RM2,055.00 and RM50.00, respectively on 15 November 2019. The "pemutihan" permit has been renewed and will be valid until 31 December 2021.

Save for the above fine, we have not been issued with any notice of non-compliance from the relevant authorities in relation to the above.

As our Group has not experienced any rejection for renewal of permit for the temporary additional structures in the past, the likelihood of permit for the temporary additional structures not being renewed by MBMB is low. In the event that the permit for the temporary additional structures is not renewed by MBMB, our Group will remove the temporary additional structures and relocate the storage of raw materials to other locations. Therefore, the non-renewal risk of the permit is not expected to have a material effect to our Group.

(iii) Our Group had built temporary additional structures at the factory in Lot 4775 to store inventories.

The appointed architect had, on 18 October 2018, on behalf of our Group applied to MBMB to seek its approval for the temporary additional structures and MBMB had via its letter dated 7 January 2019 granted the "pemutihan" permit for the temporary additional structures built on Lot 4775. The "pemutihan" permit was valid until 31 December 2019 and subject to annual renewal as well as fees payable to MBMB. MBMB had also imposed a fine amounting to RM1,434.00 on our Group for building the temporary additional structures without prior approval and we had paid the fine on 17 December 2018 in addition to the permit and "plet" fees of RM2,030.00 and RM50.00, respectively. The "pemutihan" permit has been renewed and will be valid until 31 December 2021.

4. INFORMATION ON OUR GROUP *(CONT'D)*

Save for the above fine, we have not been issued with any notice of non-compliance from the relevant authorities in relation to the above.

As our Group has not experienced any rejection for renewal of "pemutihan" permit for the temporary additional structures in the past, the likelihood of "pemutihan" permit for the temporary additional structures not being renewed by MBMB is low. In the event that the "pemutihan" permit for the temporary additional structures is not renewed by MBMB, our Group will remove the temporary additional structures and relocate the storage of inventories to other locations. Therefore, the non-renewal risk of the "pemutihan" permit is not expected to have a material effect to our Group.

(iv) We had acquired Lot 4799 on 9 April 2019 and there are existing temporary additional structures on Lot 4799 which were built by the previous owner.

The appointed architect had, on 23 September 2019, on behalf of our Group applied to MBMB to seek its approval for the temporary additional structures and MBMB had via its letter dated 25 November 2019 granted the "pemutihan" permit for the temporary additional structures built on Lot 4799. The "pemutihan" permit was valid until 31 December 2020 and subject to annual renewal as well as fees payable to MBMB. Notwithstanding that the existing temporary additional structures were not built by us, MBMB had imposed a fine amounting to RM2,184.00 on our Group and we had paid the fine on 15 November 2019. We had also paid the permit and "plet" fees of RM2,900.00 and RM50.00, respectively on 15 November 2019. The additional structures on Lot 4799 are used as temporary storage for empty pallet, carton boxes, paper (raw materials), work-in-progress inventories and finished goods. The "pemutihan" permit has been renewed and will be valid until 31 December 2021.

Save for the above fine, we have not been issued with any notice of non-compliance from the relevant authorities in relation to the above.

As our Group has not experienced any rejection for renewal of "pemutihan" permit for the temporary additional structures in the past, the likelihood of "pemutihan" permit for the temporary additional structures not being renewed by MBMB is low. In the event that the "pemutihan" permit for the temporary additional structures is not renewed by MBMB, our Group will remove the temporary additional structures and relocate the storage of empty pallet, carton boxes, paper (raw materials), work-in-progress inventories and finished goods to other locations. Therefore, the non-renewal risk of the "pemutihan" permit is not expected to have a material effect to our Group.

(v) Our Group has been using Lot 4771 as factory and warehouse since April 2005 where the approved use for this property as stated in the CF dated 6 April 2005 was "setor terbuka" (open air store). We had, subsequently, on 23 May 2019 applied to MBMB to vary the approved use for Lot 4771 and MBMB had via its letter dated 31 July 2019 confirmed that this property can be used as factory and warehouse.

We have not been fined or issued with any notice of non-compliance from the relevant authorities in relation to the above. Please refer to Section 5.1.6 of this Prospectus for the consequences of non-compliance with Section 70(12) of the SDBA.

(vi) Our Group has been using Lot 4776 as a warehouse since March 2018 where the approved use for this property as stated in the CF dated 15 February 2007 was "bengkel/ pejabat" (workshop/ office). We had, subsequently, on 23 May 2019 applied to MBMB to vary the approved use for Lot 4776 and MBMB had via its letter dated 8 August 2019 confirmed that this property can be used as warehouse, factory and office.

We have not been fined or issued with any notice of non-compliance from the relevant authorities in relation to the above. Please refer to Section 5.1.6 of this Prospectus for the consequences of non-compliance with Section 70(12) of the SDBA.

4. INFORMATION ON OUR GROUP *(CONT'D)*

(vii) Our Group has been using Lot 4775 as factory and warehouse since January 2012 where the approved use for this property as stated in the CF dated 24 January 2005 was "bengkel & pejabat" (workshop & office). We had, subsequently, on 23 May 2019 applied to MBMB to vary the approved use for Lot 4775 and MBMB had via its letter dated 31 July 2019 confirmed that this property can be used as factory, warehouse and office.

We have not been fined or issued with any notice of non-compliance from the relevant authorities in relation to the above. Please refer to Section 5.1.6 of this Prospectus for the consequences of non-compliance with Section 70(12) of the SDBA.

(viii) The approved use for Lot 4799 as stated in the CF dated 19 March 2007 was "kilang" (factory). Our Group had, subsequently on 15 November 2019, applied to MBMB to vary the approved use for Lot 4799 to be used as factory, warehouse/ office and MBMB had via its letter dated 28 November 2019 approved Lot 4799 to be used as factory, office and warehouse. Subsequent thereto, our Group has been using Lot 4799 as factory and warehouse.

Save as disclosed above, all other properties owned by our Group have not breached any of the land use conditions / permissible land use; and where buildings are involved, we are in compliance with applicable laws, rules and building regulations.

4.27.2 Material Properties Rented by Our Group

The material properties rented by our Group are as follows:

No.	Company (Tenant)	Landlord	Description/ Existing use	Location	Period of tenancy/ Date of expiry of tenure	Built-up Area (Approximate)	Date of issuance of CF/CCC	Rental payable per year (RM)
(1)	Envy Premium	Khian Henn Industries Sdn. Bhd.	Description: 1 unit of single storey detached factory Existing use: Factory	No.1-B, Jalan PK 8, Taman Perindustrian Krubong, 75250 Melaka	3 years / 1 May 2018 to 30 April 2021	42,625.09 sq. ft.	9 April 2005[(i)]	216,000

Note:

(i) We are renting the factory in Taman Perindustrian Krubong for the production of rigid boxes and there are existing temporary additional structures on the factory built by the landlord which requires a "pemutihan" permit.

The landlord had, on 12 February 2020, submitted to MBMB an application for a "pemutihan" permit seeking approval for the temporary additional structures and MBMB had via its letter dated 22 September 2020 granted the permit for the temporary additional structures built on this rented factory. The permit is valid until 31 December 2020 and subject to annual renewal as well as fees payable to MBMB. Notwithstanding the additional structures were not built by us, MBMB had imposed a fine amounting to RM3,000.00 and we had paid the fine on 4 September 2020. We had also paid the permit and "plet" fees of RM1,160.00 and RM50.00, respectively, on 4 September 2020. The "pemutihan" permit has been renewed and will be valid until 31 December 2021.

4. INFORMATION ON OUR GROUP *(CONT'D)*

In the event the "pemutihan" permit for the temporary additional structures is not renewed by MBMB, our Group will relocate the production of rigid boxes to another location. We foresee that any relocation will not take more than 2 weeks and hence will not materially disrupt the production of rigid boxes. The cost for such relocation is approximately RM50,000 and is not expected to be material to our Group. Therefore, the risk of non- renewal of the "pemutihan" permit is not expected to have a material effect to our Group.

There is no breach of any land use conditions / permissible land use and/or non-compliance with any applicable laws, rules and building regulations which may materially affect our Group's operations and utilisation of our assets in respect of the properties rented by our Group above.

4.27.3 Machinery and Equipment

A summary of the key machinery and equipment owned and used by us as at 31 May 2020 are set out below:

Machinery and equipment	Function	No. of units	NBV as at 31 May 2020 (RM'000)	Purchase cost (RM'000)	Average useful life (years)	Age of the machinery and equipment [(ii)](years)
CTP machine and printing plate processor	To produce printing plates	2	1,071	1,356	10	1 and 5
Digital printer	To produce prototypes which are used for colour proofing and colour guide	1	14	29	10	5
Calibrated colour LCD monitor	For contract proofing and colour management setting	1	4	8	10	5
Cutting machine	To cut paperboards, art papers and single face corrugated paperboards into specific sizes	8	504	782	15	1 to 19
Printing machine	To print artworks on paperboards or art papers	[(i)]8	21,195	32,385	20	1 to 15
Folding machine	To fold printed art papers	2	78	287	15	9 and 14
Die-cutting machine	To create die-cut lines on printed paperboards or art papers	12	5,056	5,273	15	1 to 11

4. INFORMATION ON OUR GROUP *(CONT'D)*

Machinery and equipment	Function	No. of units	NBV as at 31 May 2020 (RM'000)	Purchase cost (RM'000)	Average useful life (years)	Age of the machinery and equipment [(ii)](years)
Auto laminator	To paste printed paperboards on single face corrugated paperboards	3	337	548	12	3 to 15
Gluing machine	To glue the edges of paper-based packaging and form flattened packaging	11	1,396	2,541	15	1 to 15
Sheeting machine	To cut rolled paperboards, art papers and single face corrugated paperboards	2	575	714	15	1 and 11
UV varnishing machine	To coat printed paperboards with glossy, shiny liquid coating and cure with UV light to produce matt UV, gloss UV, anti-scratch UV, soft touch UV finishings; and to coat printed paperboards with water-based coating to produce water-based finishings	1	558	567	20	1
Automatic visual positioning system box making machine	To position and glue art paper on the outer side of rigid box case, lid and cover	1	423	528	5	3
Case maker forming module	To fold the 4 sides of art paper into the rigid box case and lid	1	54	67	5	3
Automatic notching machine	To form groove lines on chipboards for folding purposes	1	57	71	5	3
Visual positioning module	To position and enable the following rigid box forming processes: • mold and form cut chipboards into rigid box case and lid; • tape the rigid box case and lid; and • glue the sides of art paper on the rigid box case and lid.	1	205	256	5	3
Automatic iron positioning machine	To paste iron/ steel plate onto rigid box cover and case	1	39	49	5	3

4. INFORMATION ON OUR GROUP *(CONT'D)*

Machinery and equipment	Function	No. of units	NBV as at 31 May 2020 (RM'000)	Purchase cost (RM'000)	Average useful life (years)	Age of the machinery and equipment [ii](years)
Automatic magnet positioning machine	To position and paste magnet bar onto rigid box cover and case	1	39	49	5	3
Book style box packing machine	To paste rigid box case with rigid box cover	1	104	130	5	3
Hand feed die-cutting and creasing press machine	To cut and crease chipboard	1	39	45	5	2
Semi-auto paper feeding and glue machine	To spread glue onto art paper	1	40	46	5	2
Gluing and bubble pressing machine	To paste glued art paper against the chipboard and remove air bubble that is trapped during manual pasting	1	8	9	5	2
Pressing machine	To press glued art paper against the chipboard	1	22	25	5	2
Edge mounting machine	To position and enable the following rigid box forming process: • mold and form cut chipboards into rigid box case and lid; and • manually tape the rigid box case and lid.	1	6	7	5	2
Book style pressing machine	To mold and style rigid box case and rigid box cover to form book style rigid box	1	31	35	5	2

4. INFORMATION ON OUR GROUP *(CONT'D)*

Machinery and equipment	Function	No. of units	NBV as at 31 May 2020 (RM'000)	Purchase cost (RM'000)	Average useful life (years)	Age of the machinery and equipment [ii](years)
Automated waste paper discharge system and hydraulic baling machine	To automate waste collection from our cutting process and waste stripping process where the waste paperboards, art papers and single face corrugated paperboards are transferred into the waste room through the conveying hose, separated and compressed into a compact bundle using the hydraulic baling machine. The automated waste paper discharge system and hydraulic baling machine will allow us to have an efficient waste collection for recycling purposes	1	320	329	15	1
Unfired pressure vessels						
Air receiver tanks	• To remove water from the compressed air system by allowing air to cool; and • To minimise pulsation in the compressed air system caused by a reciprocating compressor or a cyclic process downstream.	8	19	47	20	1 to 15
Oil separator tanks	To separate compressed air from oil after compressing the air	5	173	211	15	1 to 5
Stainless steel pressure tanks	To act as a reservoir to hold extra water in the compressed air system	2	7	18	15	6
Air receiver with oil separator tanks	• To remove water from the compressed air system by allowing air to cool; • To minimise pulsation in the compressed air system caused by a reciprocating compressor or a cyclic process downstream; and • To separate compressed air from oil after compressing the air.	8	22	63	15	6 to 12
Total			**32,396**	**46,475**		

Notes:

(i) Comprising 6 standard format printing machines (including 1 standard format printing machine which is used for training purposes) and 2 large format printing machines.

(ii) Age of machinery and equipment is calculated based on the date of acquisition of the machinery and equipment.

We intend to continue to use the machinery and equipment which are near their average useful life or have passed their average useful life, after taking into consideration of the following:

(i) condition and efficiency of the machinery and equipment; and

(ii) the financial impact (depreciation and maintenance cost of the existing machinery and equipment as compared to replacement machinery and equipment), of which is not expected to be material to our Group.

Save for the existing standard format printing machine which we intend to replace via the proceeds from Public Issue as detailed in Section 2.7.1 of this Prospectus, we have no intention to replace any of the machinery and equipment as set out above as at the LPD.

Subsequent to the FYE 2020 and up to the LPD, we have purchased 2 gluing machines, 1 cutting machine and 1 oil separator tank which are currently in operations.

4.27.4 Printing and Production Capacity and Output

Our capacity to print and produce paper-based packaging is largely dependent on the number of printing machines and production lines that we have in our factories and the capacity of each printing machine and production line.

As at the LPD, we have 8 printing machines comprising 6 standard format printing machines (including 1 standard format printing machine which is used for training purposes) with an average hourly printing capacity of 7,500 pieces per machine and 2 large format printing machines with an average hourly printing capacity of 6,500 pieces per machine. In addition, we have a production line for the production of rigid boxes with an average hourly production capacity of 300 pieces.

For each new printing job, we change to a new set of printing plates according to the new packaging printing requirements of our customer in terms of new product or any changes of information and design of the product. In each new printing job, 1.5 hours of machine setting time is required to set up the printing machine by placing a new set of printing plates on the plate cylinder in the respective printing units. During the course of printing, we are also required to pause for 5 minutes after every 30 minutes of printing to clean the rubber blanket on top of the blanket cylinder and for the printing machine to warm up before we resume printing. We will also lose printing time due to the time required for printing of samples before we begin mass printing.

For each new rigid box production job, we change the die-cutting block which is customised according to the position of the cut lines and crease lines of the flattened rigid box cases, lids and covers. In each new rigid box production job, 1.5 hours of machine setting time is required to set up the die-cutting machine by fitting the die-cut block into the die-cutting machine, adjusting the dimension of the die-cut block and setting up the position for chipboard inputs.

4. INFORMATION ON OUR GROUP *(CONT'D)*

Machinery and equipment used for the printing and production of Corrugated and Non-corrugated packaging are different from the machinery and equipment used for the production of rigid boxes. Our annual actual printing and production output, annual printing and production capacity and utilisation rate for the FYE 2020 are depicted below:

	No. of jobs	Annual actual printing and production output (pieces)	Annual printing and production capacity(i) (pieces)	Utilisation rate (%)
Standard format paperboards and art papers	4,497	54,752,731	(ii)61,910,625	88.44
Large format paperboards and art papers	1,337	6,452,414	(iii)10,645,917	60.61
Rigid boxes	25	380,283	(iv)547,050	69.52

Notes:

(i) The annual printing and production capacity is the sum of monthly printing and production capacity for the FYE 2020. The monthly printing and production capacity is calculated from the available printing and production hours in a month multiplied by average hourly printing and production capacity per machine.

(ii) The available printing hours for standard format paperboards and art papers are computed based on the following:

(a) 4 standard format printing machines for the 7-month period from June 2019 to December 2019 and 5 standard format printing machines for the 5-month period from January 2020 to May 2020* for the FYE 2020;

* Our Group had acquired an additional standard format printing machine in October 2019. However, as machine installation and commissioning were required, mass printing activities only commenced in January 2020.

(b) 6 morning shifts a week with 7.5 working hours as well as an overtime of 1.5 working hours per shift; and 5 - 6 night shifts a week with 7.5 working hours per shift^, as well as taking into consideration of the following:

- 1.5 hours of machine setting time for each printing job with different printing packaging requirements;
- 5 minutes of rubber blanket cleaning and machine warm up time, which takes place every 30 minutes of printing; and
- Approximately 2% or between 5 to 8 hours of estimated loss of production time for printing of samples per month, save for the month of April 2020 as there was no printing of samples.

^ There was no night shift in April 2020 as part of our Group's precautionary measures at our factories and offices to minimise the risk of COVID-19 infections and to ensure compliance with the standard operating procedures imposed by the Government.

(c) temporary cessation of Hayan Prints' operations from 18 March 2020 to 29 March 2020 in view of the MCO. Hayan Prints has resumed operations on 30 March 2020 upon receipt of approval from MITI to allow it to continue to operate during the MCO period.

Based on the FYE 2020 production schedule, our annual printing capacity for standard format paperboards and art papers will be 86,068,125 pieces for the FYE 2020, assuming that we were operating 5 standard format printing machines throughout the FYE 2020 and that there were no disruptions to Hayan Prints' operations due to the MCO.

(iii) The available printing hours for large format paperboards and art papers are computed based on the following:

(a) 2 large format printing machines for the FYE 2020;

(b) 6 morning shifts a week with 8 working hours per shift, as well as taking into consideration of the following:

- 1.5 hours of machine setting time for each printing job with different printing packaging requirements;
- 5 minutes of rubber blanket cleaning and machine warm up time, which takes place every 30 minutes of printing; and
- Approximately 10% or between 13 to 21 hours of estimated loss of production time for 1 large format printing machine for printing of samples per month, save for the month of April 2020 as there was no printing of samples.

(c) temporary cessation of Hayan Prints' operations from 18 March 2020 to 29 March 2020 in view of the MCO. Hayan Prints has resumed operations on 30 March 2020 upon receipt of approval from MITI to allow it to continue to operate during the MCO period.

Based on the FYE 2020 production schedule, our annual printing capacity for large format paperboards and art papers will be 11,324,083 pieces for the FYE 2020, assuming that there were no disruptions to Hayan Prints' operations due to the MCO.

(iv) The available production hours for rigid boxes are computed based on the following:

(a) 1 die-cutting machine for the FYE 2020.

The capacity for rigid boxes production is computed based on the capacity of the die-cutting machine instead of assembly line as the die-cutting machine is capable of producing 300 pieces of rigid box per hour whereas the assembly line is capable of producing 750 pieces of rigid box per hour. For the FYE 2020, notwithstanding the higher capacity of the assembly line, Envy Premium's production capacity is limited by the capacity of the die-cutting machine. Hence, only a maximum of 300 complete pieces of rigid box can be produced every hour.

(b) 6 morning shifts a week with 8 working hours per day, as well as taking into consideration of the following:

- 1.5 hours of machine setting time for each rigid box production job with different production requirements; and
- Approximately 15% or between 17 to 32 hours of estimated loss of production time for the production of samples, save for the month of April 2020 as there was no production of samples.

(c) temporary cessation of Envy Premium's operations from 18 March 2020 to 19 April 2020 in view of the MCO. Envy Premium has resumed operations on 20 April 2020 upon receipt of approval from MITI to allow it to continue to operate during the MCO period.

Based on the FYE 2020 production schedule, our annual production capacity for rigid boxes will be 600,750 pieces for the FYE 2020, assuming that there were no disruptions to Envy Premium's operations due to the MCO.

4.28 EMPLOYEES

For the FYE 2020, our Group has an average workforce of 252 employees, of whom 164 are permanent employees and 88 are contractual employees. As at the LPD, our Group has 281 employees, of whom 184 are permanent employees and 97 are contractual employees. All of our employees are based in our factories in Taman Teknologi Cheng, Melaka and Krubong, Melaka.

The details of our permanent employees by department for the FYE 2020 and as at the LPD are set out as below:

Department	Average no. of permanent employees for the FYE 2020	No. of permanent employees as at the LPD
Executive Directors:		
– HPP Holdings	2	2
– Subsidiaries	4	4
Administration and accounting	11	14
Sales, marketing and customer service	10	13
Quality assurance and control	29	24
Production	108	127
Total	**164**	**184**

The details of our contractual employees by department for the FYE 2020 and as at the LPD are set out as follows:

Department	Average no. of contractual employees for the FYE 2020	No. of contractual employees as at the LPD
Executive Directors:		
– HPP Holdings	-	-
– Subsidiaries	-	-
Administration and accounting	-	-
Sales, marketing and customer service	-	-
Quality assurance and control	9	8
Production	79	89
Total	**88**	**97**

The average number of local employees for the FYE 2020 accounted for 167 persons, or approximately 66.27% of our total workforce; while the average number of foreign workers for the FYE 2020 accounted for 85 persons, or approximately 33.73% of our total workforce. As at the LPD, the number of local employees accounted for 187 persons, or approximately 66.55% of our total workforce; while the number of foreign workers accounted for 94 persons, or approximately 33.45% of our total workforce.

Our foreign workers are involved in general works in our factories such as preparing printing plates, cutting rolled paperboards, assisting in operating printing machines and other post-press machines operations, carrying out basic QC and performing stock counts, amongst others. Our foreign workers are from Nepal, Myanmar and Bangladesh. As at the LPD, all our foreign workers have valid visit pass (temporary employment) ("**work permits**") and we are not in breach of any immigration laws.

Subsequent to the LPD, we have 1 foreign worker who has resigned and his last day of employment with our Group was on 27 November 2020. We have 1 foreign worker whose work permit will expire on 23 December 2020. Our Group has submitted application to renew the work permit for the foreign worker to the relevant authorities.

We pay social insurance for our employees, including, medical, personal accident and work injury insurance in compliance with applicable local laws and regulations concerning social insurance.

None of our employees belong to any trade unions and there has been no industrial dispute pertaining to our employees since we commenced operations.

4.29 MAJOR CUSTOMERS

Set out below is our Group's top 5 major customers for the FY Under Review:

Customers	Country of incorporation	Main types of products and services	End user industry	Approximate length of relationship (years)(i)	FYE 2018	
					RM'000	%(ii)
Group of Companies A(iii)	Malaysia and USA	Corrugated and Non-corrugated packaging	Consumer E&E	5	28,012	43.50
Karex group of companies	Malaysia and Thailand	Corrugated and Non-corrugated packaging	Sheath contraceptive	19	16,627	25.82
Group of Companies B(iv)	Malaysia, Singapore and Thailand	Corrugated and Non-corrugated packaging	Food and beverage	13	4,629	7.19
HA Pack group of companies	Malaysia	Non-corrugated packaging	Consumer E&E	5	3,314	5.15
Group of Companies C(v)	Malaysia	Corrugated and Non-corrugated packaging	Food and beverage	11	2,810	4.36
Total					**55,392**	**86.02**

Customers	Country of incorporation	Main types of products and services	End user industry	Approximate length of relationship (years)[i]	FYE 2019	
					RM'000	%[ii]
Group of Companies A[iii]	Malaysia and USA	Corrugated and Non-corrugated packaging and rigid boxes	Consumer E&E	5	38,462	46.52
Karex group of companies	Malaysia and Thailand	Corrugated and Non-corrugated packaging	Sheath contraceptive	19	17,067	20.64
Sony EMCS (Malaysia) Sdn Bhd	Malaysia	Corrugated and Non-corrugated packaging and rigid boxes	Consumer E&E	2	7,520	9.10
Group of Companies B[iv]	Malaysia, Singapore and Thailand	Corrugated and Non-corrugated packaging	Food and beverage	13	6,149	7.43
Group of Companies C[v]	Malaysia	Corrugated and Non-corrugated packaging	Food and beverage	11	2,830	3.42
Total					**72,028**	**87.11**

Customer	Country of incorporation	Main types of products and services	End user industry	Approximate length of relationship (years)[i]	FYE 2020	
					RM'000	%[ii]
Group of Companies A[iii]	Malaysia and USA	Corrugated and Non-corrugated packaging and rigid boxes	Consumer E&E	5	52,081	51.46
Karex group of companies	Malaysia and Thailand	Corrugated and Non-corrugated packaging	Sheath contraceptive	19	21,310	21.06
Sony EMCS (Malaysia) Sdn Bhd	Malaysia	Corrugated and Non-corrugated packaging and rigid boxes	Consumer E&E	2	9,878	9.76
Group of Companies B[iv]	Malaysia, Singapore and Thailand	Corrugated and Non-corrugated packaging	Food and beverage	13	4,174	4.13
Intretech (Malaysia) Sdn Bhd	Malaysia	Corrugated packaging	Consumer E&E	1	2,706	2.67
Total					**90,149**	**89.08**

Notes:

(i) The approximate length of relationship is calculated up to the LPD.

(ii) Based on our Group's total revenue of approximately RM64.40 million, RM82.68 million and RM101.20 million for the FY Under Review, respectively.

(iii) Group of Companies A comprises Company A and Company A Malaysia. Company A is not listed on any stock exchange. Both of these companies provide packaging and printing service solutions and are part of a multinational group of companies headquartered in the USA. Group of Companies A has clientele from industries such as Consumer E&E, digital gaming products and skin care.

Pursuant to the NSNDA, we must adhere to the confidentiality clauses in the NSNDA which prohibit us to use information deemed confidential and/or proprietary by Group of Companies A without its prior written approval. As Group of Companies A has informed us in writing that it is not agreeable to be named in this Prospectus, we are not able to disclose the name of Group of Companies A. Further, our business relationship with Group of Companies A is based on the NSNDA, hence, any breach of this agreement may result in them terminating the business relationship with our Group.

None of our Directors, Promoters and substantial shareholders has any interest in Group of Companies A.

Subsequent to the FYE 2020, our Group has entered into an Agency Agreement with Company A Malaysia. As a result, Company A Malaysia has become our Group's agent in relation to paper-based packaging products sold to Group of Companies D* and/or its contract manufacturers. Further details on the transition of this working relationship between our Group and Group of Companies A are set out in subsequent paragraphs.

* Group of Companies D comprises:

No.	Company	Description
(1)	Company D Malaysia	Company D Malaysia is incorporated in Malaysia as a private company. It is principally involved in the provision of research and development contract services and manufacturing of household appliances and commercial hand dryers.
(2)	Company D Philippines	Company D Philippines is based in the Philippines and is principally involved in producing motors for hairdryers and vacuum cleaners.
(3)	Company D Singapore	Company D Singapore is incorporated in Singapore as a private company and is principally involved in manufacturing of household appliances. It offers vacuums, fans, hairdryers, shavers and other related products.
(4)	Company D UK	Company D UK is incorporated in the UK and is principally involved in providing household appliances. It offers vacuums cleaners, fans, heaters, hairdryers, and accessories as well as spare parts.

Pursuant to the NDA and MSA, we must adhere to the confidentiality clauses under the NDA and the MSA which prohibit us from using information deemed confidential and/or proprietary by Group of Companies D without its prior written approval. As such, we are not able to disclose the name of Group of Companies D.

Further, our business relationship with Group of Companies D is based on the NDA and MSA. Hence, any breach of the terms of these agreements may result in Group of Companies D terminating the business relationship with our Group.

None of our Directors, Promoters and substantial shareholders has any interest in Group of Companies D.

(iv) Group of Companies B is involved in the manufacturing and marketing of powdered milk products. These are subsidiaries of a multinational food and beverage manufacturer based in France which is listed on the Euronext Paris and SIX Swiss Exchange.

Pursuant to the purchase contract dated 12 April 2019 with non-disclosure agreement which was effective from 1 January 2019 entered into with Company B, we must adhere to the non-disclosure agreement which prohibits us to use information deemed confidential by Company B without its prior written approval. As Company B has informed us in writing that it is not agreeable to be named in this Prospectus, we are not able to disclose the name of Group of Companies B.

Further, our business relationship with Company B is based on the purchase contract with non-disclosure agreement, hence, any breach of this contract/ agreement may result in Company B terminating the business relationship with our Group.

None of our Directors, Promoters and substantial shareholders has any interest in Group of Companies B.

The manufacturing arm of Group of Companies B has ceased its operations in Malaysia since March 2020. This manufacturing arm contributed approximately RM4.49 million, RM5.88 million and RM3.76 million to our Group's revenue, respectively, for the FY Under Review. Notwithstanding this, as at the LPD, Group of Companies B's operations in Singapore and Thailand have been placing orders with our Group on an ad hoc basis after the cessation of its Malaysian operations.

(v) Group of Companies C is involved in the manufacturing and marketing of dairy products. These are subsidiaries of a multinational food and beverage manufacturer based in New Zealand which is listed on New Zealand's Exchange.

Pursuant to the purchasing agreement with confidentiality clauses which was effective from 1 June 2017, we must adhere to the confidentiality clauses and keep confidential and secure, and not use any property and/or information deemed commercially sensitive or confidential by Group of Companies C without its prior written approval. As Group of Companies C has informed us in writing that it is not agreeable to be named in this Prospectus, we are not able to disclose the name of Group of Companies C. Further, our business relationship with Group of Companies C is based on the purchasing agreement with confidentiality clauses. Hence, any breach of this agreement may result in them terminating the business relationship with our Group.

None of our Directors, Promoters and substantial shareholders has any interest in Group of Companies C.

For the FY Under Review, our Group was dependent on 2 groups of major customers, namely Group of Companies A and Karex group of companies. We supplied mainly Corrugated and Non-corrugated packaging to Group of Companies A and Karex group of companies. These 2 major customers collectively contributed more than 65% to our total revenue for the FY Under Review. Group of Companies A and Karex group of companies have been our customers for the past 5 years and 19 years, respectively.

Group of Companies A being our largest customer for the FY Under Review, has been sourcing for paper-based packaging from our Group since 2015 for, among others, its customer, Group of Companies D which designs and manufactures Consumer E&E products. Please refer to Note (iii) above for further information on Group of Companies A and Group of Companies D.

As our paper-based packaging sold to Group of Companies A are delivered to the Group of Companies D's contract manufacturers (both prior to the MSA coming into effect and currently pursuant to the MSA), we are and will be dependent on Group of Companies D, which is also in the Consumer E&E industry. Please refer to Section 5.1.3 of this Prospectus for our dependency on the Consumer E&E industry.

In the FYE 2021, we began to supply paper-based packaging to Group of Companies D directly (i.e. without going through Group of Companies A) pursuant to the NDA and MSA.

Please refer to Section 4.20 of this Prospectus for the salient terms of the above agreements.

Following the execution of the above agreements, Group of Companies D and/or its contract manufacturers will place orders of paper-based packaging with our Group directly (i.e. without going through Group of Companies A) starting from the FYE 2021 onwards. As such, we expect Group of Companies D to contribute significantly to our Group's revenue and we expect that we will be dependent on Group of Companies D as one of our major customers moving forward.

Pursuant to the Agency Agreement, Company A Malaysia will now become an agent to our Group in relation to the paper-based packaging supplied to Group of Companies D and/or its contract manufacturers and our Group will pay commission to Company A Malaysia for carrying out such agency function. Group of Companies A is expected to cease to be one of our major customers from the FYE 2021 onwards.

Notwithstanding this, our relationship as supplier-customer with Group of Companies A will continue as we expect it to continue to place orders for rigid boxes for its other customers with us.

To become Group of Companies D's supplier for paper-based packaging, we are required to go through an evaluation process set out by Group of Companies D. Group of Companies D has a stringent supplier selection process whereby all areas of evaluation must be assessed and supported with documentary evidence in order to comply with its supplier audit requirements. Group of Companies D also requires all its suppliers, including our Group, to comply with periodic audits and site visits by its representatives at our Group's factories to ensure our printing and production operations and quality control meet its requirements at all times. In view of the abovementioned supplier selection process, Group of Companies D may not be able to replace our Group with other suppliers within a short period of time.

Our continuing relationship with Group of Companies D (via Group of Companies A prior to the MSA coming into effect) and currently pursuant to the MSA is mainly attributed to our range and quality of products offered, cost saving solutions and our ability to meet their requirements.

Karex group of companies being our second largest customer for the FY Under Review, has been sourcing for paper-based packaging from our Group since 2002. Karex group of companies is mainly involved in the sheath contraceptive industry, namely manufacture and sale of condoms, rubber products and personal lubricants, manufacturing of pre-vulcanised latex, wholesalers of healthcare products, manufacturing and sale of urinary urethral products, distribution, packaging and marketing of condoms and related products. The holding company, Karex Berhad, is listed on the Main Market of Bursa Securities.

Our Group's track record in printing and production of paper-based packaging has earned us many long-running working relationships with various brand owners in different end user industries which in turn resulted in a growing portfolio for our Group. However, the increasing sales to other customers were offset by the increasing recurring sales from Group of Companies A* and Karex group of companies leading to the continuing high contribution from Group of Companies A* and Karex group of companies.

* With the execution of the NDA, Agency Agreement and MSA, such contribution from Group of Companies A is expected to be replaced by Group of Companies D from the FYE 2021 onwards.

To reduce the dependency on Group of Companies A (and Group of Companies D moving forward) and Karex group of companies, we have adopted a diversification strategy to expand our product offerings to include rigid boxes. In March 2018, we started trading rigid boxes via Hayan Prints and had, on 26 December 2018, we acquired Envy Premium, a company involved in trading and production of rigid boxes. This has resulted in the revenue from rigid boxes contributing approximately RM39.99 million, representing approximately 39.51%, of our total revenue for the FYE 2020. We also intend to expand our reach to a wider customer base in both the local and overseas markets by participating in local and overseas tradeshows and exhibitions. Please refer to Section 4.25 of this Prospectus for further details on our Group's business strategies and future plans.

Moving forward, we expect Group of Companies D and Karex group of companies to contribute significantly to our Group's revenue. We have maintained good working relationships and have not encountered any major issues with any of our major customers in the past and this will be a basis for continuing good supplier-customer relationships.

Please refer to Section 5.1.1 of this Prospectus for further information on the risk factor of our dependency on these 2 groups of major customers.

4.30 MAJOR SUPPLIERS

Set out below is our Group's top 5 major suppliers for the FY Under Review:

Suppliers	Country of incorporation	Types of products/ services purchased	Approximate length of relationship (years)[(i)]	FYE 2018	
				RM'000	%[(ii)]
Fong Yee group of companies	Malaysia	Paperboards and art papers	18	8,622	26.84
Ornapaper Industry (M) Sdn Bhd	Malaysia	Single face corrugated paperboards	9	6,859	21.35
HMT Trade & Resources (M) Sdn Bhd	Malaysia	Paperboards	5	4,630	14.42
August Trading Industry Limited	Seychelles	Paperboards	3	2,452	7.63
Stature Quality Sdn Bhd	Malaysia	Subcontractor for finishing and hot stamping	19	1,669	5.20
Total				**24,232**	**75.44**

4. INFORMATION ON OUR GROUP *(CONT'D)*

Suppliers	Country of incorporation	Types of products/ services purchased	Approximate length of relationship (years)(i)	FYE 2019	
				RM'000	%(ii)
HA 1 group of companies	Malaysia	Rigid boxes	2	12,101	25.76
Ornapaper Industry (M) Sdn Bhd	Malaysia	Single face corrugated paperboards	9	7,379	15.71
Fong Yee group of companies	Malaysia	Paperboards and art papers	18	7,210	15.35
LianSheng Trading Industrial Limited	China	Paperboards	4	6,867	14.62
Stature Quality Sdn Bhd	Malaysia	Subcontractor for finishing and hot stamping	19	1,914	4.07
Total				**35,471**	**75.51**

Suppliers	Country of incorporation	Types of products/ services purchased	Approximate length of relationship (years)(i)	FYE 2020	
				RM'000	%(ii)
HA 1 group of companies	Malaysia	Rigid boxes	2	27,510	43.92
Fong Yee group of companies	Malaysia	Paperboards and art papers	18	8,076	12.89
LianSheng Trading Industrial Limited	China	Paperboards	4	6,624	10.57
Ornapaper Industry (M) Sdn Bhd	Malaysia	Single face corrugated paperboards	9	5,741	9.16
Armstrong Electronics Sdn Bhd	Malaysia	Foams	1	3,075	4.91
Total				**51,026**	**81.45**

Notes:

(i) The approximate length of relationship is calculated up to the LPD.

(ii) Based on our Group's total purchases of approximately RM32.12 million, RM46.98 million and RM62.64 million for the FY Under Review, respectively.

Our purchases from our major suppliers comprise paperboards, art papers, single face corrugated paperboards, rigid boxes (including foams) and subcontracting works for finishing and hot stamping. Our suppliers are selected based on pricing, production capabilities, specifications and range of raw materials, ability to meet our quality requirements and ability to deliver in a timely manner.

Our Group was dependent on HA 1 group of companies as our sole supplier of rigid boxes for trading purposes, which contributed approximately 43.92% of our total purchases in the FYE 2020. We sourced for rigid boxes for trading purposes from HA 1 Rigid Box Manufacturer Sdn Bhd (an entity within HA 1 group of companies) for the FYE 2018 and FYE 2019. Starting from the FYE 2020, we have been sourcing for rigid boxes for trading purposes from Packworld (M) Sdn Bhd (another entity within HA 1 group of companies). Notwithstanding this, our Group intends to expand our production capacity to produce rigid boxes by acquiring an additional rigid box production line to cater for future expansions in our rigid box business. This will reduce our dependency on Packworld (M) Sdn Bhd moving forward. Please refer to Section 4.25.2 of this Prospectus for information on strategies to expand our rigid box business.

Save for Packworld (M) Sdn Bhd, our Group is not dependent on any other major suppliers as supplies of paperboards, art papers, single face corrugated paperboards and rigid boxes (including foams) are generally readily available and/or easily sourced from local paper merchants or paper mills overseas, while subcontracting works for finishing and hot stamping can be easily sourced locally. We did not face any material supply or service disruptions or delays by our major suppliers in the FY Under Review.

4.31 EXCHANGE CONTROL

The Financial Services Act 2013 and Islamic Financial Services Act 2013 are the principal legislations which govern exchange control in Malaysia. The governing authority for Foreign Exchange Administration in Malaysia is Bank Negara Malaysia.

In accordance with Notice 4 of the current foreign exchange administration rules issued by Bank Negara Malaysia, a resident is allowed to make or receive payment in RM in Malaysia to or from a non-resident for settlement of trade in goods and settlement of services, amongst others.

With respect to foreign currencies, payment may be made and received between a resident and a non-resident for any purpose in foreign currencies.

As at the LPD, we comply with the exchange control requirement in relation to our settlement of payments with foreign customers and suppliers.

In view of the above, foreign exchange control does not have an impact on the availability of cash and cash equivalents for use by our Group and the remittance of dividends, interest or other payments to our shareholders.

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4.32 IMR REPORT

SMITH ZANDER INTERNATIONAL SDN BHD 201301028298 (1058128-V)
15-01, Level 15, Menara MBMR, 1 Jalan Syed Putra, 58000 Kuala Lumpur, Malaysia
T : +603 2732 7537 W : www.smith-zander.com

SMITH ZANDER

Date: 16 NOV 2020

The Board of Directors

HPP Holdings Berhad
50-1, 52-1 & 54-1
Jalan BPM 2
Taman Bukit Piatu Mutiara
75150 Melaka

Dear Sirs/Madam,

Independent Market Research Report on the Packaging Printing Industry in Malaysia ("IMR Report")

This IMR Report has been prepared by SMITH ZANDER INTERNATIONAL SDN BHD ("SMITH ZANDER") for inclusion in the Prospectus in conjunction with the listing of HPP Holdings Berhad on the ACE Market of Bursa Malaysia Securities Berhad.

The objective of this IMR Report is to provide an independent view of the industry and market(s) in which HPP Holdings Berhad and its subsidiaries ("Hayan Group") operates in and to offer a clear understanding of the industry and market dynamics. As Hayan Group is involved in the printing and production of paper-based packaging, the scope of work for this IMR Report will thus address the packaging printing industry within the printing industry in Malaysia, being the industry that Hayan Group operates in.

The research process for this study has been undertaken through secondary or desktop research, as well as detailed primary research when required, which involves discussing the status of the industry with leading industry participants and industry experts. Quantitative market information could be sourced from interviews by way of primary research and therefore, the information is subject to fluctuations due to possible changes in business, industry and economic conditions.

SMITH ZANDER has prepared this IMR Report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this IMR Report presents a balanced view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive. Our research has been conducted with an "overall industry" perspective and may not necessarily reflect the performance of individual companies in this IMR Report. SMITH ZANDER shall not be held responsible for the decisions and/or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies as mentioned in this report.

For and on behalf of SMITH ZANDER:

DENNIS TAN
MANAGING PARTNER

SMITH ZANDER

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Any part of this IMR Report used in third party publications, where the publication is based on the content, in whole or in part, of this IMR Report, or where the content of this IMR Report is combined with any other material, must be cited and sourced to SMITH ZANDER.

The research for this IMR Report was completed on 10 November 2020.

For further information, please contact:

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About SMITH ZANDER INTERNATIONAL SDN BHD

SMITH ZANDER is a professional independent market research company based in Kuala Lumpur, Malaysia, offering market research, industry intelligence and strategy consulting solutions. SMITH ZANDER is involved in the preparation of independent market research reports for capital market exercises, including initial public offerings, reverse takeovers, mergers and acquisitions, and other fund-raising and corporate exercises.

Profile of the signing partner, Dennis Tan Tze Wen

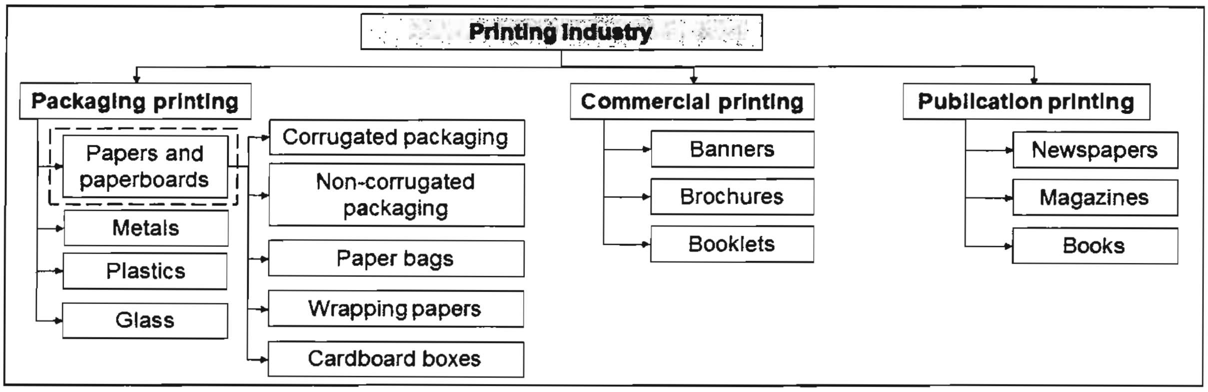
Dennis Tan is the Managing Partner of SMITH ZANDER. Dennis Tan has 22 years of experience in market research and strategy consulting, including over 17 years in independent market research and due diligence studies for capital markets throughout the Asia Pacific region. Dennis Tan has a Bachelor of Science (major in Computer Science and minor in Business Administration) from Memorial University of Newfoundland, Canada.

1 THE PACKAGING PRINTING INDUSTRY IN MALAYSIA

Introduction

As Hayan Group is involved in the printing and production of paper-based packaging, this IMR Report focuses on packaging printing of full colour product packaging using paper and paperboard. Packaging printing is a segment within the printing industry as illustrated below:

Segmentation of printing industry



Notes:
- The examples listed are not exhaustive.
- [dashed box] denotes the key segment Hayan Group is involved in.

Source: SMITH ZANDER

Packaging printing typically includes reproduction of brand name and/or logo of the product and/or brand owner, graphics of the packaged product as well as texts and images of the features and functions on packaging materials. Packaging printing can be simple with 1 or 2 colour printing with limited graphics including text, logos and safety symbols on the packaging. Packaging printing can also be complex where the printing is in full colour and a large part of the packaging is printed with high definition graphics including images, text, logos and product information. Further, packaging printing can include security printing for product authentication, whereby the printing can be in forms of microtext, variable images and illustrations or toner technology. Security printing allows manufacturers and brand owners to distinguish their products from counterfeit products.

Packaging	Printing
• Packaging includes the selection of materials, design, printing of information and production of packages or boxes to be used by manufacturers or brand owners to enclose and deliver their products to be sold to consumers. • Packaging for consumer goods forms a substantial part of the packaging market as it plays a significant role in the preservation and protection from physical damage of consumer products. • In addition, it has been increasingly used to provide aesthetics and brand appeal through packaging printing. • Packaging for consumer goods is available in various materials such as papers and paperboards, metals, plastics and glass.	• Printing is a process for reproducing text and images, typically with ink on a substrate, which is the base material to be printed on surfaces such as paper, plastic or canvas using a printing press. • There are 3 essential production press which comprise the following: - Pre-press: refers to the pre-printing processes such as preparation of the artwork and printing plates before printing, - Press: refers to the actual printing process, - Post-press: refers to the finishing processes that determines the final look, shape and feel of the printed items. It comprises amongst others, varnishing, shaping, gluing, ultra-violet (UV) light treatment and lamination. • There are 5 main modern printing methods, namely offset printing, digital printing, flexography, gravure and screen printing. The type of printing method used is dependent on the required type of surface to be printed on, number of colours of print, print quality and print volumes.

Paper-based materials are widely used as packaging materials as paper-based materials can be easily printed resulting in attractive layouts, which may influence consumers' purchasing decisions through its aesthetic appeal. Paper-based packaging materials are also light, rendering mobility to the final product.

Packaging printing industry players provide printing services and convert printed papers or other printed matter into boxes, cartons and other form of containers for packaging purposes. Nevertheless, the main activity of packaging printing industry players is in printing services, while the conversion of printed papers or other printed matter into boxes, cartons and other shapes or form of containers is a complementary activity to form the finished product. Packaging printing industry players serve a host of end-user consumer product industries including but not limited to consumer electricals and electronics ("consumer E&E"), food and pharmaceuticals.

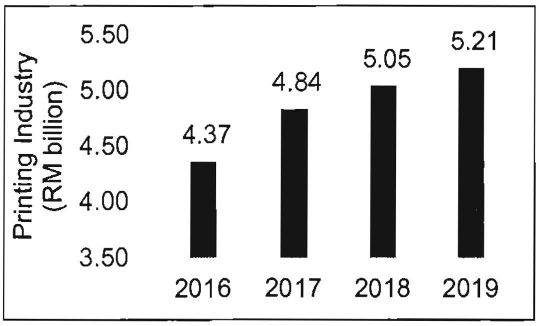
Industry Performance, Outlook and Prospects

As Hayan Group is involved in the printing and production of paper-based packaging which includes both printing as well as printing related services, the computation of industry size in this section takes into consideration both printing and printing related services.

The packaging printing industry size is represented by the size of the printing industry in Malaysia as there is no publicly available figures for the packaging printing industry.

The size of the printing industry in Malaysia, measured by manufacturing sales value of printing of paper products including amongst others, paper-based packaging, newspapers and books, as well as printing related services including amongst others, plate-making services, preparation of offset films, folding, assembling, stitching, gluing, adhesive-binding and gold stamping services, has grown from RM4.37 billion in 2016 to RM5.21 billion in 2019, at a CAGR of 6.04%.

Printing industry (Malaysia), 2016-2019



Source: Department of Statistics Malaysia

Nevertheless, moving forward, in view of the Coronavirus disease ("COVID-19") pandemic in early 2020, the Government has revised GDP forecast growth in 2020, which was initially targeted at the range of -2.00% to 0.50%, to -4.50%, indicating potential adverse economic conditions for the year which may negatively impact the manufacturing activities and demand for consumer products and in turn affect demand for packaging printing. When the economic conditions gradually recover from the impact of the COVID-19 pandemic in 2021 with expected GDP growth range of 6.50% to 7.50% according to Bank Negara Malaysia ("BNM"), the development of the packaging printing industry is expected to continue to be influenced by the key demand drivers, risk and challenges as detailed in Chapter 2 of this IMR Report.

2 KEY DEMAND DRIVERS, RISKS AND CHALLENGES

Demand Drivers

► **Growth in the consumer products manufacturing sector drives demand for packaging printing**

The manufacturing sector is one of the most important end-users of packaging printing. In Malaysia, the manufacturing sector, as measured by manufacturing sales value, grew from RM673.22 billion in 2016 to RM866.02 billion in 2019, registering a CAGR of 8.76%. The growth in the manufacturing sector translates into opportunities for growth in the packaging printing industry.

Within the manufacturing sector, the consumer products industry is an important end-user of the packaging printing industry in Malaysia as consumer products often require attractive packaging printing for the purposes of marketing products to consumers. Thus, consumer products manufacturing is a key driver for packaging printing in Malaysia.

This section addresses several key consumer products industry served by the packaging printing industry in Malaysia, namely consumer E&E, food and pharmaceuticals, as follows:

- **Consumer E&E**

The consumer E&E industry includes E&E devices that are intended for everyday use. They are primarily used for communications, entertainment, improving productivity and to perform household chores. Consumer E&E products in the market today include mobile phones, personal computers, tablets, cameras, portable music players, vacuum cleaners, refrigerators, washing machines, microwave ovens, air conditioners, dishwashers and wearable technology such as electronic watches and fitness bands, amongst others.

The consumer E&E industry in Malaysia, measured by its manufacturing sales value, grew from RM38.60 billion in 2016 to RM39.28 billion in 2018 at a CAGR of 0.88% and declined slightly to RM37.88 billion in 2019. This may be attributed to the uncertainty amidst trade war tensions between the United States of America ("US") and China which began in early 2018 as well as the downturn in the semiconductor cycle[1], which resulted in a temporary slowdown in manufacturing and trade activities in the global E&E supply chain, including the E&E industry in Malaysia being a supporting industry to the global E&E supply chain. However, in the longer term, countries in Southeast Asia including Malaysia, are likely to benefit from the move of manufacturing activities out of China resulting from the trade war tension between the US and China.[2] Further, as announced under the Budget 2021, a special incentive package amounting to RM1.00 billion will be provided for high value-added technology to support research and development investment in aerospace and electronic clusters in Batu Kawan, Penang and Kulim, Kedah industrial parks. In addition, a high technology fund worth RM500.00 million will be provided by BNM to support high technology and innovative companies, to enable Malaysia to remain competitive in the global supply chain and maintain the supply chain ecosystem and protect high skilled jobs. As such, these incentives and investments are expected to drive the manufacturing activities of E&E products in Malaysia, driving demand for packaging printing.

The convergence of E&E devices into consumer lifestyles creates continued demand for consumer E&E products. Consumer E&E products play an important role in consumer lifestyles today, particularly among the urban population, as many use and interact with their mobile devices on a daily basis, where they are widely used in communication, entertainment as well as for office use.

In addition, over the years, consumer E&E products have experienced advancements in terms of design, performance and features. For example, many electrical appliances today do not just have standard features but have variations based on aesthetic design, power levels and also energy consumption. Continuous technological advancements lead to continuous development and improvement of the functions and features of consumer E&E products. For instance, electrical appliances may be embedded with Bluetooth technology for tracking consumption power; and/or with Internet-of-Things technology where they can be controlled from mobile devices. With development and improvement in functions and features, packaging printing is used to communicate the improved functions and features to consumers.

- **Food**

The manufacturing of certain food such as biscuits, tea, coffee and prepared meals require packaging. In order to remain competitive with other industry players and to attract consumers, industry players may use attractive printing and packaging to differentiate themselves in the market.

The food manufacturing industry in Malaysia, as measured by its manufacturing sales value, grew from RM2.15 billion in 2016 to RM2.61 billion in 2019 at a CAGR of 6.68%. The food manufacturing industry is primarily driven by the increasing disposable incomes in Malaysia which creates greater spending power and consequently demand for food. Increasing health awareness also contributes to the demand for food packaging that is in compliance with food safety standards as well as packaging to include printed information such as ingredients and nutritional contents.

- **Pharmaceuticals**

The manufacturing of pharmaceuticals includes drugs and medicine as well as sheath contraceptives, amongst others. The pharmaceutical manufacturing industry in Malaysia, as measured by

[1] Source: Economic Outlook 2020, Ministry of Finance
[2] Source: Malaysia says tech firms, hit by pandemic and trade war, keen to move to country, Reuters, 5 June 2020.

manufacturing sales value, grew from RM2.11 billion in 2016 to RM3.25 billion in 2019, registering a CAGR of 15.49%. The manufacturing of pharmaceuticals requires packaging that visually conveys the safety and reliability of the products, as well as contains printed information such as active ingredients and/or medicinal contents.

The increasing rates of chronic diseases leading to increase in health awareness drives demand for pharmaceuticals. Increasing incidences of chronic lifestyle diseases are mainly attributable to more stressful lifestyles with lack of regular exercise and consumption of processed foods which have low nutritional values. This has resulted in the growing demand for drugs and medicines for the treatment of such diseases, as well as the increasing use of health supplements as a form of preventive healthcare.

Sheath contraceptives are used as a method of contraception to avoid sexual transmitted diseases and to reduce the likelihood of pregnancy in terms of family planning. In particular, increasing initiatives to control and prevent Human Immunodeficiency Virus ("HIV") transmission drives demand for sheath contraceptives. HIV is transmitted through certain body fluids such as blood, semen, vaginal fluids and breast milk. As such, HIV can be transmitted during unprotected sexual intercourse, sharing of syringes and also during breast feeding. HIV transmission can be prevented through the correct use of sheath contraceptives during sexual intercourse. The number of people living with HIV globally has grown from 36.40 million in 2016 to 38.00 million in 2019[3]. Initiatives such as The Joint United Nations Programme on HIV/AIDS ("UNAIDS") Strategy 2016-2021 was implemented to control HIV transmission. The UNAIDS Strategy 2016-2021 sets out the global development policy and aims to end the AIDS epidemic by 2030. Among the prevention programmes set out in the UNAIDS Strategy 2016-2021 is the sheath contraceptive programme to promote availability and accessibility to sheath contraceptives. The increase in demand for sheath contraceptives will in turn lead to an increase in the demand for packaging printing used in the manufacturing of sheath contraceptives. The manufacturing of sheath contraceptives requires packaging to protect the sheath contraceptives, with printed packaging to serve as information label for consumers.

As the demand for pharmaceutical products including sheath contraceptives grow, the packaging printing industry being the supporting industry to the pharmaceutical manufacturing industry will grow in tandem as well.

In view of the COVID-19 pandemic, the Government imposed a Movement Control Order under the Prevention and Control of Infectious Diseases Act 1988 and the Police Act 1967 ("MCO") throughout Malaysia from 18 March 2020 to 3 May 2020, a conditional MCO from 4 May 2020 to 9 June 2020 and a recovery MCO from 10 June 2020 to 31 December 2020 (notwithstanding the conditional MCO which was re-imposed in certain states (e.g. Sabah, Selangor, Kuala Lumpur, Putrajaya and Labuan) that recorded increasing number of COVID-19 infection cases in October 2020 and areas/districts in other states which may be under conditional MCO as and when imposed by the Government), to curb the spread of COVID-19. During the MCO, conditional MCO and recovery MCO periods, the demand for food and pharmaceuticals has continued to remain stable as these are essential items, which sustained the demand for packaging printing for these products. The demand for groceries and takeaway meals increased during the MCO period as consumers were not allowed to dine-in at any eateries, leading to a behavioural shift to cooking at home or having takeaway meals which in turn led to an increase in demand for food packaging and takeaway packaging. Further, even when the MCO, conditional MCO and recovery MCO are lifted, many consumers may still remain cautious and continue to practise physical distancing, and prefer to have home-cooked meals or order takeaway to minimise dining at eateries to avoid being infected with the COVID-19 until the pandemic ends. This is expected to continue to drive the demand for food packaging and takeaway packaging in the near future. As most healthcare-related centres such as pharmacies, clinics and hospitals were operating throughout the MCO, conditional MCO and recovery MCO periods, consumers have had access to pharmaceuticals and therefore, the COVID-19 pandemic and imposition of the MCO, conditional MCO and recovery MCO had no material impact on the demand for pharmaceutical products. In addition, the demand for certain drugs and medicine spiked during the MCO period as they were used for the treatment of COVID-19 patients. In addition, as announced under the Budget 2021, tax incentives will be provided to companies involved in the manufacturing of pharmaceutical products including vaccines. This is expected to drive demand for packaging printing from the expected increase in

[3] Source: UNAIDS Fact Sheet – Global AIDS Update 2020

manufacturing activities of pharmaceutical products. However, any prolonged dampening of economic conditions in Malaysia may lead to loss of businesses and jobs and subsequently reduce consumer purchasing power for consumer products which include consumer E&E products.

► **Increasing disposable income signifies greater demand for higher value-added products with quality packaging**

Malaysia is an upper-middle income developing economy with aspirations to achieve developed status. Gross national income per capita increased by 17.70% from RM38,412 in year 2016 to RM45,212 in year 2019, indicating growing disposable income and improving standards of living of the population. The increase in disposable income leads to a rise in a more affluent population that has greater spending power, creating demand for higher value-added products with quality packaging.

While the MCO, conditional MCO and the recovery MCO are expected to temporarily dampen economic conditions of the country, economic activities are expected to resume when the pandemic ends. To support household income and safeguard jobs, the Government had on 27 March 2020 announced a stimulus package known as Bantuan Prihatin Nasional involving various forms of cash handouts to eligible Malaysians, wage subsidy scheme for small and medium enterprises to retain workers, and a deferment of all loan/financing repayments for a period of 6 months, with effect from 1 April 2020 to ease the cash flow of Malaysians and small and medium enterprises, amongst others. In addition, under the Budget 2021, the Government has announced various key initiatives to alleviate the financial burden of the population such as income tax reduction and targeted loan repayment assistance. However, prolonged dampening of economic conditions in Malaysia may lead to loss of businesses and jobs and subsequently reduce consumer purchasing power. This may affect the demand for premium products which in turn adversely affect the demand for packaging printing.

However, as the economic condition in Malaysia is expected to recover in 2021 as reflected in BNM's forecast of GDP growth range of 6.50% to 7.50% in 2021, businesses, employment and consumer purchasing power are expected to recover and the demand for higher value-added products with quality packaging is expected to normalise to pre-COVID-19 levels.

Risks and Challenges

► **Paper as a key raw material used in packaging printing is subject to price fluctuations**

The key raw materials used in packaging printing are primarily paper-based materials such as corrugated paper and paperboard, art paper as well as printing ink.

Paper-based packaging printing industry players source paper-based materials from local suppliers as well as foreign distributors and/or paper mills. While a majority of the raw materials required are generally readily available, there are occasions where there is shortage of paper supply.

Paper is susceptible to price fluctuations as a result of demand and supply conditions in its country of origin and other factors such as natural disasters, government regulations, outbreak of diseases, general economic conditions and rising labour costs. In addition, increasing environmental concerns leading to tightened government regulations on logging may also affect supply of paper, as wood pulp from trees is the key raw material for paper manufacturing.

Any changes in the conditions of any of the above factors may cause material increases in the price of paper, and this may lead to a rise in the cost of production for packaging printing industry players as well as carrying cost for maintaining inventories. For instance, there was a price fluctuation of paper originating from China in 2017 when the Chinese government required paper manufacturers in China to obtain import permits to import recycled wastepaper which is one of the main raw materials for paper manufacturing. This led to a temporary disruption in the supply of raw materials for paper production in China which subsequently affected the supply of paper, resulting in an increase in the price of paper in China.

Further, unexpected events such as outbreak of diseases in the countries of origin for the required supplies may temporarily disrupt the supply chain of paper-based materials. The COVID-19 pandemic is an example of this risk. Such events may cause the production of paper-based materials 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. If disruptions persist, packaging printing industry players may be required to purchase these paper-based materials from different suppliers which may be at a higher prices and may lead to a rise in cost of production.

- **Reliance on foreign workers in packaging printing operations**

The packaging printing industry is primarily a semi-automated industry. While certain parts of the printing process are automated (i.e. drawing, cutting, printing, folding, etc), manual labour remains critical to facilitate processes such as artwork and printing plate preparation, feeding of papers into the respective machines, quality control and post-press processes.

The issue of shortages in labour is common in the manufacturing industry (which includes packaging printing industry) in Malaysia where Malaysia is dependent on foreign workers as a result of limited supply of local labour for manufacturing related operations. Any quota restrictions, or suspensions, in the hiring of foreign workers may cause difficulties in employing sufficient labour. In February 2016, the Government announced a freeze on recruitment of foreign workers from all source countries. Shortly after, the Government granted an uplift of foreign worker recruitment freeze for 4 sectors namely manufacturing, construction, plantation and furniture-making industries in May 2016 in light of major shortages of workers in these industries.

On 22 June 2020, the Human Resources Minister announced a hiring freeze on foreign workers until end of 2020 with the aim to create more job opportunities for the local workforce in view of the adverse impact from the COVID-19 pandemic which is causing higher unemployment in the country. Further, on 29 July 2020, the Government announced that applications to allow for the hiring of foreign workers will be considered in sectors which have high dependency on foreign workers such as construction, agricultural and plantation, once the hiring freeze is lifted at the end of 2020.

Packaging printing industry players may also face challenges such as longer time required to register foreign workers and/or renewal of work permits, which may disrupt operations due to insufficient workers.

A suspension or similar policy issues will cause a suspension or cessation of future foreign worker intake and packaging printing industry players may be forced to source for local workers which may come at a higher cost. Packaging printing industry players who are unable to pass on the increase in labour cost to their customers may experience material impact on the profitability of their business. This may be made worse if the packaging printing industry players are unable to successfully hire sufficient local workers timely, resulting in disruptions in their operations. Any prolonged disruptions in their operations will subsequently affect their delivery schedules and lead to potential cancellation of orders which will adversely impact their financial performance.

- **Demand for packaging products is dependent on the development of the consumer products market**

Packaging printing services are heavily sought after in the consumer products industry. Demand for consumer products is driven by the purchasing power of consumers as well as the functions and features of these products. A decline in economic conditions may result in decreases in disposable incomes or lead to cautious consumer spending, thus adversely affecting demand for consumer products, especially non-essential items such as premium consumer E&E products.

The imposition of the MCO by the Government had resulted in closure of all government and private premises except those involved in essential services, unless written permission is obtained from Ministry of International Trade and Industry; while the conditional MCO and recovery MCO allow more business activities to operate but they must adhere to the standard operating procedures. This is expected to adversely impact businesses, employment and consumer purchasing power. With lower purchasing power, consumers become more cautious in their spending and this may affect the demand for non-essential items such as premium consumer E&E products. This may subsequently affect the demand for packaging printing for premium consumer E&E products.

Any of the above adverse developments may cause reduced demand for packaging printing services. This could have a negative impact on the overall financial performances of packaging printing industry players, who may not be able to successfully achieve their expected results.

3 COMPETITIVE LANDSCAPE OF THE PACKAGING PRINTING INDUSTRY IN MALAYSIA

Overview

As at 10 November 2020, there were 2,808 printers in Malaysia licensed by the Ministry of Home Affairs ("MOHA"). In Malaysia, the Printing Presses and Publication Act 1984 was established to regulate the use of printing presses and the printing, importation, production, reproduction, publishing and distribution of publications. Under the Printing Presses and Publication Act 1984, a licence to use a printing press is required for letterpress, lithography, gravure, intaglio or any other process of printing capable of printing at a rate of 1,000 impressions per hour or more. A printing press refers to the machine, equipment or article for printing, copying or reproducing documents stated under the Printing Presses and Publication Act 1984.

The packaging printing industry in Malaysia is fragmented and competitive due to the large number of industry players ranging from large organisations, small and medium enterprises and sole proprietorships. Some industry players focus on offering one type of printing service (i.e. packaging printing) while some industry players offer a variety of printing services for different purposes (i.e. commercial printing[4] and publication printing[5]).

While the packaging printing industry players in Malaysia are mainly involved in providing printing services using paper and paperboard as raw materials, there are also paper and paperboard manufacturers who provide printing services as a complementary service to their customers. These paper and paperboard manufacturers do not provide printing services as a standalone offering to customers who do not purchase paper or paperboard from them. The complementary printing services provided by the paper and paperboard manufacturers typically involve printing with 1 or 2 colours with limited graphics as compared to the full colour paper-based product packaging provided by packaging printing industry players whose core offerings are printing services.

This section of the IMR Report will focus on the competitive landscape of the licensed industry players involved in providing full colour printing services and convert printed papers or other printed matter into boxes, cartons and other form of containers for packaging purposes, as Hayan Group is involved in the printing and production of paper-based packaging which includes corrugated and non-corrugated packaging as well as other items such as brochures, leaflets, labels and paper bags.

The barriers of entry in the packaging printing industry are generally low as raw materials and machinery and equipment are easily sourced in the market and the upfront cost required can be relatively low if a new packaging printing industry player chooses to commence operations with a small printing capacity with limited service offerings. However, to remain competitive in the market and to have a sustainable business over the long term, industry players are required to increase their capacities in order to achieve greater economies of scale for large scale printing, which will help strengthen their market reputations to attract larger customers, including multinational companies. Scaling up a packaging printing business requires high capital investments in machinery and equipment as well as large working capital for the purchase and storing of raw materials.

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[4] Commercial printing industry players serve end-users by offering retail-based printing services such as photocopying or corporate customers by providing printing services for corporate and promotional products ranging from annual reports, name cards, flyers, brochures, directories and catalogues.

[5] Publication printing industry players serve publishers by offering printing services for books, educational materials, bibliographies and religious books.

Key Industry Players

The basis for selection of the key industry players in the packaging printing industry in Malaysia is based on the following criteria:

- companies involved in providing full colour printing services and converting printed papers or other printed matter into boxes, cartons and other form of containers for packaging purposes, which include corrugated and non-corrugated packaging as well as other items such as brochures, leaflets, labels and paper bags, based on publicly available information on the products and services they offer ("Criteria 1");
- companies with printing press licenses issued by MOHA ("Criteria 2"); and
- companies which recorded more than RM10.00 million revenue based on their respective latest available financial years ("Criteria 3").

The following sets out the key industry players in the packaging printing industry in Malaysia based on Criteria 1, Criteria 2 and Criteria 3. In instances where the segmental revenues of certain key industry players are not publicly available, it is included in this report on the basis that they offer similar types of printing services as Hayan Group.

Company name [a]	Examples of full colour printed paper-based packaging product offering	Latest available financial year	Revenue [b] (RM million)	Gross profit ("GP") (RM million)	GP margin	Profit before tax ("PBT")/ (Loss before tax) (RM million)	PBT margin	Profit after tax ("PAT")/ (Loss after tax) (RM million)	PAT margin
Eastsun Superior Print (M) Sdn Bhd	Corrugated and non-corrugated packaging, display and point-of-sale materials	31 December 2018	31.78	8.67	27.28%	1.34	4.22%	1.41	4.44%
GL Printing Sdn Bhd	Corrugated and non-corrugated packaging, office stationery, brochures, catalogues, annual reports, hang tags, labels, stickers, posters, business cards, paper cups and bowls, lunch boxes	30 June 2019	75.82	21.94	28.94%	18.97	25.02%	14.40	18.99%
Hayan Group	Corrugated and non-corrugated packaging, brochures, leaflets, labels, paper bags and rigid boxes	31 May 2020	101.20	20.70	20.45%	12.43	12.28%	8.82	8.72%
Hin Press Sdn Bhd	Non-corrugated packaging, magazines, brochures and paper bags	30 June 2019	32.54	7.23	22.22%	3.82	11.74%	2.96	9.10%
Kinta Press & Packaging (M) Sdn Bhd	Corrugated and non-corrugated packaging, rigid boxes, labels tags and display stands	30 September 2016 [c]	47.53	34.35	72.27%	10.10	21.25%	9.97	20.98%
Linocraft Printers Sdn Bhd (wholly-owned subsidiary of Linocraft Holdings Limited)	Corrugated and non-corrugated packaging, rigid boxes, blister packs instruction manuals, books, inserts and labels	31 August 2019	205.31	30.05	14.64%	13.14	6.40%	11.27	5.49%
MBF Printing Industries Sdn Bhd	Non-corrugated packaging and promotional materials	31 December 2018	65.94	4.41	6.69%	(1.37)	N/A [d]	(1.62)	N/A [e]

Company name [a]	Examples of full colour printed paper-based packaging product offering	Latest available financial year	Revenue [b] (RM million)	Gross profit ("GP") (RM million)	GP margin	Profit before tax ("PBT")/ (Loss before tax) (RM million)	PBT margin	Profit after tax ("PAT")/ (Loss after tax) (RM million)	PAT margin
Percetakan Mun Sun Sdn Bhd	Corrugated and non-corrugated packaging, labels and paper bags	30 April 2019	63.63	9.25	14.54%	1.38	2.17%	1.21	1.90%
PPH Printing & Packaging (Penang) Sdn Bhd (wholly-owned subsidiary of Public Packages Holdings Berhad)	Corrugated and non-corrugated packaging	31 December 2019	32.73	0.38	1.16%	(3.08)	N/A[d]	(2.50)	N/A[e]
Prelude Printing (M) Sdn Bhd	Corrugated and non-corrugated packaging, instruction manuals, books, display stands and warranty cards	31 December 2017	20.59	1.35	6.56%	(1.36)	N/A[d]	(1.48)	N/A[e]
Shin-Nippon Industries Sdn Bhd	Non-corrugated packaging, instruction manuals, paper bags, leaflets, rigid boxes, point-of-sale materials and vacuum forming trays	31 December 2019	10.61	5.19	48.92%	(1.72)	N/A[d]	(1.47)	N/A[e]
South Malaya (J) Printing & Carton Sdn Bhd	Corrugated and non-corrugated packaging and labels	31 March 2020	11.35	2.10	18.50%	0.26	2.29%	0.15	1.32%
Taspack Industrial Sdn Bhd	Non-corrugated packaging, instruction manuals and brochures	31 December 2019 [f]	13.33	3.36	25.21%	0.88	6.60%	0.58	4.35%
Team Printers Sdn Bhd	Corrugated and non-corrugated packaging, instruction manuals, paper bags, blister cards and hanging cards	31 December 2019 [g]	61.88	9.88	15.97%	2.31	3.73%	2.78	4.49%
Teckwah Paper Products Sdn Bhd	Corrugated and non-corrugated packaging, leaflets, labels, booklets and manuals	31 December 2019	22.58	11.29	50.00%	0.23	1.02%	0.13	0.58%
Thumbprints Utd Sdn Bhd	Corrugated and non-corrugated packaging, labels, books and promotional materials	31 December 2019	62.81	17.79	28.32%	11.35	18.07%	8.46	13.47%
Versatile Paper Boxes Sdn Bhd (wholly-owned subsidiary of Versatile Creative Berhad)	Offset printed corrugated and non-corrugated packaging	31 March 2019	38.43	5.49	14.29%	(21.83)	N/A[d]	(20.62)	N/A[e]

Notes:

- Latest available as at 10 November 2020.
- The above list was arranged in alphabetical order.
- The above list is not exhaustive.

[a] There are several industry players who satisfy Criteria 1 and Criteria 2 of the basis for selection as set out above. However, the audited revenues of these companies are not publicly available and hence these companies do not meet Criteria 3 of the basis for selection and are not included in the table. Nevertheless, these companies are deemed to be industry players on the basis that they meet Criteria 1 and Criteria 2 of the basis for selection. These companies are J.P. Printers Sdn Bhd, Lim Weng Wah Brothers Printing Press Sdn Bhd, Percetakan Tenaga Sdn Bhd, Sin Huat Press (Melaka) Sdn Bhd, Sun Printers Sdn Bhd, Tepsco Printers Sdn Bhd and Thunder Print Sdn Bhd.

[b] Revenue may be derived from other businesses and countries outside Malaysia as segmental revenue is not publicly available from the Companies Commission of Malaysia ("CCM").

[c] Latest available as at 10 November 2020 as it is an exempt private company for the financial years 30 September 2017, 30 September 2018 and 30 September 2019.

[d] Not applicable as the respective companies recorded losses before tax.

[e] Not applicable as the respective companies recorded losses after tax.

[f] Financial reporting period of 6 months due to the change of financial year end from 30 June to 31 December.

[g] Financial reporting period of 16 months due to the change of financial year end from 31 August to 31 December.

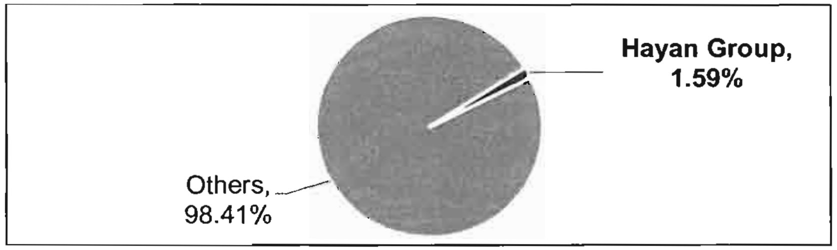
Source: MOHA, various company websites, Hayan Group, CCM, SMITH ZANDER

Market Share

For the year ended 31 May 2019, Hayan Group's revenue from printing and production of paper-based packaging recorded RM82.68 million. Hayan Group captured a market share of 1.59% against the printing industry size in Malaysia, measured by the total manufacturing sales value of printing of paper products and printing related services of RM5.21 billion in 2019.

The printing industry size in Malaysia is used in the computation of market share of Hayan Group as there is no publicly available figures for the packaging printing industry in Malaysia. The packaging printing industry is a subsegment of the printing industry.

Market share, 2019



Source: Department of Statistics Malaysia, SMITH ZANDER

5. RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER, IN ADDITION TO THE OTHER INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, THE FOLLOWING RISK FACTORS (WHICH MAY NOT BE EXHAUSTIVE) THAT MAY HAVE A SIGNIFICANT IMPACT ON US AND OUR SHARES.

5.1 RISKS RELATING TO OUR BUSINESS OPERATIONS

5.1.1 We are dependent on our top 2 major customers

We were dependent on our top 2 major customers, namely Group of Companies A and Karex group of companies during the FY Under Review. These 2 customers collectively contributed more than 65% of our Group's revenue for the FY Under Review. Group of Companies A and Karex group of companies have been our customers for the past 5 years and 19 years, respectively.

However, Group of Companies A is expected to cease to be our major customer from FYE 2021 onwards. This is in view of the new arrangement where Group of Companies D and/or its contract manufacturers will place orders for paper-based packaging directly with our Group, without going through Group of Companies A.

Pursuant to the Agency Agreement, Company A Malaysia has become our Group's agent in relation to paper-based packaging products sold to Group of Companies D and/or its contract manufacturers and we will pay commission to Company A Malaysia for carrying out such agency function. We have also entered into the NDA and MSA with Group of Companies D to give effect to the aforementioned new arrangement. Please refer to Section 4.20 of this Prospectus for the salient terms of the Agency Agreement, NDA and MSA. As such, we expect Group of Companies D to contribute significantly to our Group's revenue and we expect that we will be dependent on Group of Companies D as one of our major customers from FYE 2021 onwards.

Notwithstanding the above, Group of Companies A will remain as our customer as it will continue to place orders for rigid boxes for its other customers.

We have not entered into any long-term contracts with Group of Companies D and Karex group of companies as they place their printing orders via purchase orders on an as-needed basis. The size of orders varies, depending on their production plans and requirements as well as their level of investments, which in turn are driven by the introduction of new products to the end-consumer market. Any changes in consumer preference may affect the production activities of these major customers, which may in turn affect the demand for our paper-based packaging.

There is no assurance that we can reduce our dependency on Group of Companies D and Karex group of companies going forward. If they are not satisfied with the quality our products and such dissatisfaction is not addressed accordingly, our business relationship with them may be affected and may result in them sourcing for new suppliers for their paper-based packaging.

Any reduction or cessation of orders from Group of Companies D and/or Karex group of companies may have an adverse effect on our business. The loss of these major customers, if not replaced, will adversely affect our financial condition and results of operations. There is no assurance that the revenue contribution from these major customers will be sustained at the current level in the future.

5.1.2 We are dependent on Group of Companies A as our sales agent

Pursuant to the NSNDA, our Group cannot seek or accept any business from Group of Companies D except through Company A. The term of the NSNDA shall be for such period of time as services are provided by Company A through Hayan Prints to Group of Companies D and for a period of 2 years thereafter.

Therefore, we have entered into the Agency Agreement with Company A Malaysia to facilitate a business relationship between our Group and Group of Companies D to be in line with the arrangement by Company A Malaysia under the Agency Agreement. Pursuant to the Agency Agreement, Company A Malaysia was appointed as an agent to our Group in relation to the supply of paper-based packaging to Group of Companies D in July 2020. In addition, Group of Companies A as an agent, may also refer other potential new business opportunities (i.e. other customers apart from Group of Companies D) to our Group in the future. As we can only have a direct business relationship with Group of Companies D with Company A Malaysia as our sales agent, we are thus dependent on Group of Companies A.

Please refer to Section 4.20 of this Prospectus for the salient terms of the NSNDA and Agency Agreement.

There is no assurance that we can reduce our dependency on Group of Companies A as our sales agent going forward. If the Agency Agreement is not extended upon expiry or in the absence of any other arrangement to address such expiry, our business relationship with Group of Companies D may be affected. This is because we cannot seek or accept any business involving sales of products to Group of Companies D except through Group of Companies A during the term of the Agency Agreement and for 12 months after the expiry of the said term pursuant to the Agency Agreement.

Any cessation of orders from Group of Companies D resulting from the above may have an adverse effect on our business. The termination of the sales agent relationship with Group of Companies A, if not addressed, may adversely affect our financial condition and results of operations. There is no assurance that the Agency Agreement will be extended upon expiry.

5.1.3 We are dependent on the Consumer E&E industry as our major source of revenue

We are dependent on the manufacturers and packaging solutions provider of Consumer E&E products as our major source of revenue, as demonstrated by the increasing revenue contribution of paper-based packaging from the Consumer E&E industry (approximately 49.56% in the FYE 2018 to approximately 63.34% in the FYE 2020). Further information on the breakdown of our revenue by end user industries are set out in Section 4.15.2 of this Prospectus. Any loss or reduction of orders for our paper based packaging from the Consumer E&E industry, if not replaced, may adversely affect our business operations and financial performance.

The imposition of the MCO which prohibits mass movements and gatherings across Malaysia has resulted in closure of all business premises (save for those providing essential services or as approved by MITI) whilst the conditional MCO and recovery MCO allow more business activities to operate subject to compliance of the standard operating procedures imposed by the Government. These together with the movement and business operation restrictions in other countries due to the COVID-19 pandemic and any direct and indirect consequences arising from the global COVID-19 pandemic will adversely impact businesses, employment and consumer purchasing power.

With lower purchasing power, consumers become more cautious in their spending and this may affect the demand for non-essential items such as high-end Consumer E&E products. This may subsequently affect the demand for our paper-based packaging for such Consumer E&E products which in turn may have an adverse impact on our Group's financial condition and results of operations. As at the LPD, we have not experienced any cancellation of orders or any indication of cancellation of orders from our customers in the Consumer E&E industry.

5.1.4 Our Group's GP margin is largely dependent on our product mix

Our Group's GP margin is largely dependent on our product mix. This is because the printing and production of Corrugated and Non-corrugated packaging yield a higher GP margin as compared to the trading and production of rigid boxes which yield a lower GP margin.

Further details of our Group's GP margin for the FY Under Review are as follows:

	Audited		
	FYE 2018	FYE 2019	FYE 2020
GP margin	%	%	%
Printing and production			
- Corrugated packaging	33.02	32.86	27.08
- Non-corrugated packaging	32.04	30.64	25.20
- Others(i)	66.28	61.26	53.60
GP margin	**34.73**	**33.64**	**28.09**
Rigid boxes			
- Trading	9.09	11.29	8.97
- Production	-	2.80	2.65
GP margin	**9.09**	**11.21**	**8.76**
Overall GP Margin	**34.73**	**29.51**	**20.45**

Note:

(i) Comprises brochures, leaflets, labels, and paper bags which are complementary to our paper-based packaging products.

As shown in the table above, our overall GP margin decreased from approximately 34.73% in the FYE 2018 to approximately 20.45% in the FYE 2020 due to, among others, our changing product mix where the revenue contribution from trading and production of rigid boxes increased significantly during the FY Under Review. Our Group's overall GP margin may therefore fluctuate depending on our product mix for the financial year. Please refer to Section 8.3 of this Prospectus for further details on the management's discussion and analysis of financial condition and results of operations.

5.1.5 We are exposed to unexpected disruptions in our business operations caused by factors such as machinery and equipment failures, accidents, outbreak of diseases and natural disasters

Currently, our factories and warehouses are located within Taman Teknologi Cheng, Melaka and Krubong, Melaka and our ability to deliver our orders on a timely manner is dependent on smooth and uninterrupted production processes. We rely on our machinery and equipment for the printing and production of paper-based packaging. Please refer to Section 4.27.3 of this Prospectus for further details on the key machinery and equipment owned by our Group.

These machinery and equipment may, from time to time, be out of service as a result of unanticipated failures or damages occurring during operations. In the event of any prolonged non-operation of our machinery and equipment, our production schedule and product delivery schedule may be affected. The relationships with our customers and our reputation in the industry may also be affected. This, in turn may impact our business negatively and may have an adverse effect on our financial condition and results of operations.

Further, our factories and warehouses are also subject to the occurrence of natural disasters such as floods as well as other accidental and operational risks, such as outbreak of fire, explosion, breakdown of our machinery and equipment, power shortage, sabotage and civil commotion. All of these may cause downtime, losses and/or damage to our raw materials, products, factories, warehouses and office. Accordingly, any interruption to our printing and production activities may have an adverse impact to our business operations and consequently on our financial performance.

We have not experienced any past incidents of unanticipated failures or damages of our machinery and equipment which led to major disruptions in our operations and financial. Nonetheless, there is no assurance that we are able to prevent the reoccurrence of similar incidents or that such incidents will not cause any disruptions to our production and delivery schedule in the future.

Other factors such as outbreak of diseases may also cause disruptions to our business operations. For instance, the Government implemented the MCO from 18 March 2020 to 3 May 2020 which prohibited mass movements and gatherings across Malaysia and imposed closure of all business premises (save for businesses involved in the provision of essential services or as approved by MITI) due to the COVID-19 pandemic. Subsequently, the Government implemented a conditional MCO from 4 May 2020 to 9 June 2020 and a recovery MCO from 10 June 2020 to 31 December 2020 where most business activities were allowed to operate, subject to compliance with the standard operating procedures imposed by the Government. However, given the increase in the number of COVID-19 infection cases in certain states in Malaysia, the Government has imposed a conditional MCO since October 2020. Further, the Government has extended an enhanced MCO in certain areas as and when a large cluster is detected in such areas.

In view of the MCO, we had on 18 March 2020 temporarily ceased our operations. However, approvals were subsequently obtained from MITI via its letters dated 28 March 2020 and 19 April 2020 ("**MITI Letters**") to allow Hayan Prints and Envy Premium respectively, subject to certain conditions, to operate during the MCO period. Hence, Hayan Prints and Envy Premium resumed operations on 30 March 2020 and 20 April 2020 respectively.

Subsequent to the approvals from MITI, our Group accepted orders from customers which were allowed to operate during the MCO period, including Sony EMCS (Malaysia) Sdn Bhd, Karex group of companies, Kotra Pharma (M) Sdn Bhd and Group of Companies C. Whilst our Group was still in operation during the MCO period, we were required to, among others, reorganise our production and delivery schedules as well as reallocate our reduced manpower resources to cater to the orders from our customers and to be in compliance with the conditions imposed in the MITI's Letters.

We did not experience any difficulties in delivering our paper-based packaging to local customers who were allowed to operate during the MCO period. However, for orders from local and overseas customers that were: (i) not operational during the MCO period; and/or (ii) experiencing movement and business operation restrictions in their respective countries, the deliveries were delayed as such deliveries could only be made after the MCO and/or movement and business operation restrictions were lifted.

As at the LPD, we are not aware of any of our employees being infected with COVID-19. However, if any of our employees is infected, we will be required to cease the operations of Hayan Prints and Envy Premium immediately to enable us to disinfect and sanitise our business premises, and employees who are in close contact with the infected employee(s) will be quarantined. In such cases, our production and delivery schedules will be temporarily affected.

Any worsening condition of the COVID-19 pandemic or prolonged extension of the conditional MCO or revocation of the recovery MCO in place of a stricter MCO or closure of our operations may lead to disruption of our business operations and potential cancellation of orders which may adversely impact our financial performance.

5.1.6 We are subject to regulatory requirements for our business operations

Our business is subject to various laws, rules and regulations. Please refer to Section 4.22 of this Prospectus for the list of our major licences, permits and approvals.

Our major licences, permits and approvals are subject to compliance with relevant conditions (if any), laws and regulations under which they were issued. In the event of non-compliance, these licences, permits and approvals may be revoked or may not be renewed upon expiry. As at the LPD, save as disclosed in Notes (vii) and (x) in Section 4.22 of this Prospectus, our Group has complied with the conditions imposed on all our major licences, permits and approvals from various governmental authorities.

Further, the relevant government authority may take action by issuing warnings, imposing penalties, suspending the licences, permits or approvals, reducing the term, imposing additional conditions or restrictions and/or revoking the licences, permits or approvals, against us for any breach or non-compliance. Any revocation or failure to obtain, maintain or renew any of the licences or permits may materially and adversely affect our business operations and financial performance.

In addition, we may be required to comply with further and/or stricter requirements if there are changes to applicable laws, regulations or policies in Malaysia. This may affect our business operations and financial performance if we are unable to comply with the new laws, regulations or policies.

In general, pursuant to Section 3(1) of the ICA and Industrial Co-ordination Exemption Order 1976, manufacturing companies with shareholders' funds of RM2.50 million and above or employing 75 or more full time paid employees are required to have a manufacturing licence. Section 3(2) of the ICA provides that failure to comply with Section 3(1) of the ICA is an offence and on conviction, the offender is liable to a fine not exceeding RM2,000 or to imprisonment not exceeding 6 months and a further fine not exceeding RM1,000 for every day during which such default continues. We had in the past, experienced non-compliance with Section 3(1) of the ICA, which has since been rectified. Please refer to Notes (i) and (ii) in Section 4.22 of this Prospectus for further details.

Pursuant to Section 3(1) of the PPPA, no person shall keep for use or use a printing press unless he has been granted a licence under the PPPA. Section 3(4) of the PPPA provides that any person who keeps for use or uses a printing press without a valid licence shall be guilty of an offence and shall on conviction, be liable to imprisonment for a term not exceeding 3 years or to a fine not exceeding RM20,000 or to both and the deposit made pursuant to the PPPA shall be liable to be forfeited. We had in the past, experienced non-compliance with Section 3(1) of the PPPA, which has since been rectified. Please refer to Notes (iii) and (v) in Section 4.22 of this Prospectus for further details.

Section 70(12) of the SDBA provides that any person who uses any building or part of a building for a purpose other than which it was originally constructed for without the prior written permission from the local authority shall be liable on conviction to a fine not exceeding RM25,000 and shall also be liable to a further fine not exceeding RM500 for every day during which the offence is continued after a notice to cease using for other purpose has been served on such person. We had in the past, experienced non-compliance with Section 70(12) of the SDBA, which has since been rectified. Please refer to Notes (v), (vi) and (vii) in Section 4.27.1 of this Prospectus for further details.

Pursuant to Section 19(1) of the FAMA, no one shall operate any machinery in respect of which a CF is prescribed unless there is a valid CF. Pursuant to Regulation 10(1) of the Factories and Machinery (Notification, Certificate of Fitness and Inspection) Regulations 1970, the owner of an unfired pressure vessel must hold a valid CF so long as the machinery remains in service. Non-compliance with the aforementioned provision of laws is an offence under section 19(6) of the FAMA and on conviction, the offender is liable to a fine not exceeding RM150,000 or to imprisonment for a term not exceeding 3 years or to both. We had in the past, experienced lapses in renewals of CFs for our unfired pressure vessels from time to time, which has since been rectified. Please refer to Note (xi) in Section 4.22 of this Prospectus for further details.

Pursuant to Section 55B(1) of the Immigration Act, any person who employs any foreign worker without a valid pass shall on conviction, be liable to a fine of not less than RM10,000 but not more than RM50,000 or to imprisonment for a term not exceeding 12 months or to both for each such foreign worker. Section 55B(3) of the Immigration Act further provides that if it is proven to the satisfaction of the court that the employer has at the same time employed more than 5 such foreign workers, the employer shall on conviction be liable to imprisonment for a term of not less than 6 months but not more than 5 years and shall also be liable to whipping of not more than 6 strokes. In respect of an offence committed under Section 55B(1) of the Immigration Act by a body corporate, any person who at the time of the commission of the offence was a member of the board of directors, a manager, a secretary or a person holding an office or position similar to that of a manager or secretary of the body corporate shall be guilty of that offence and shall be liable to the same punishment to which the body corporate is liable under Section 55B(1) and (3) of the Immigration Act. Presently, we have a foreign worker whose work permit will expire on 23 December 2020. We are in the process of renewal with the Immigration Department of Malaysia. Please refer to Section 4.28 of this Prospectus for further details.

Based on the above, in the event that the relevant authorities take action against our Group for the past non-compliances, notwithstanding that we have rectified the past non-compliances, this may materially and adversely affect our business operations and financial performance.

5.1.7 We rely on our Group Managing Director, Executive Director and key senior management for our business continuity

Our Group's business growth, expansion and success are attributed to the contributions and expertise of our Group Managing Director, Executive Director and key senior management, the majority of whom have relevant experience and extensive knowledge in the packaging printing industry. Please refer to Sections 3.1.2 and 3.2.2 of this Prospectus for their profiles.

Our Group Managing Director, Kok Hon Seng has been actively involved in our Group's operations and his knowledge in the packaging printing industry, is invaluable to our Group and our business strategies. He plays a vital role in making corporate decisions, and formulating and implementing business strategies for our future growth.

Most of our key senior management have been with us for more than 10 years. They are crucial to our Group as they are involved in the operational processes or act as a supporting function to our Group's business. Their knowledge and experience in our business have materially contributed to the success of our Group. Our continued success and growth in the future will depend on our ability to retain our key senior management.
The loss of our Group Managing Director, Executive Director and/or any key senior management without any suitable and timely replacements may materially and adversely affect our business operations, prospects and future financial performance.

5.1.8 Our future growth depends on our ability to execute our business strategies and future plans

Our business strategies and future plans are as follows:

(i) increase printing capacity by acquiring 2 additional standard format printing machines;

(ii) expand rigid box manufacturing business by acquiring an additional rigid box production line; and

(iii) expand and diversify our customer base in different end user industries by increasing our marketing initiatives.

Please refer to Section 4.25 of this Prospectus for further information on our business strategies and future plans.

The implementation of these business strategies and future plans involves capital expenditure as well as other operating expenses such as depreciation charges, machinery and equipment maintenance costs and staff costs. The feasibility and implementation of such business strategies and future plans will also depend on, amongst others, favourable economic conditions and the timing of execution.

Our financial performance will be adversely affected if we are not able to secure sufficient printing and production orders from existing and/or new customers following the implementation of the above business strategies and future plans due to the additional costs incurred. Further, there is no assurance that the demand for our paper-based packaging will match our enlarged capacity on an immediate basis.

As such, there is no assurance that the execution of our business strategies and future plans will be successful, nor will we be able to anticipate all the risks and uncertainties that may arise during the implementation of these business strategies and future plans, which may materially affect the business operations and financial performance of our Group.

5.1.9 We are dependent on skilled printing machine operators for the operation of our printing machines

Our Group is dependent on skilled printing machine operators to operate our printing machines. These printing machine operators monitor the entire press process which includes configuring the printing settings, inspecting samples of printed paperboards and art papers and making necessary adjustments to the printing machines, monitoring the dispense of ink into the printing machines to ensure all aspects of the printing machines are ready before mass printing and to ensure smooth operations of the printing machines during printing.

We face difficulties in recruiting experienced printing machine operators who have all the necessary skills and knowledge to operate our printing machines. Hence, all our printing machine operators are trained internally over time to equip them with the necessary skills and knowledge to operate our printing machines. As at the LPD, we have a total of 15 skilled printing machine operators.

The loss of any printing machine operators simultaneously or within a short period of time without any suitable and timely replacement, and our inability to replace these qualified and competent personnel may adversely disrupt our operations. The hiring of new skilled printing machine operators may require some time as they may not be immediately replaceable. Further, new printing machine operators will need time to familiarise themselves with the operations of our printing machines. In such an event, our printing and production activities will be affected and delivery schedule may be delayed, which in turn will materially and adversely affect our business operations and financial performance.

As at the LPD, we have not encountered any major disruption to our operations due to shortage of printing machine operators. However, there is no assurance that we will be able to recruit, train and retain adequate number of printing machine operators for our operations.

5.1.10 We rely on the availability of foreign workers for general works in our factories

General works are low-skilled jobs which can be repetitive, tedious and physically demanding. Nevertheless, general works are important to support our printing and production activities. Despite offering salaries above minimum wage, we find that it is increasingly difficult to hire local workers for general works in our factories such as preparing printing plates, cutting rolled paperboards, and assisting in the printing machines and other post-press machines, carrying out basic QC and performing stock counts in our factories. As such, we rely, to a certain extent, on foreign workers for general works required for our printing and production activities.

For the FYE 2020, we have an average of 85 foreign workers (representing approximately 33.73% of our workforce) from Nepal, Myanmar and Bangladesh, all of whom were contractual employees. For the FYE 2020, among our foreign workers, an average of 76 persons were from our production department whereas the remaining 9 persons were from our quality assurance and control department. As at the LPD, we have 94 foreign workers (representing approximately 33.45% of our workforce) from Nepal, Myanmar and Bangladesh, all of whom are contractual employees. As at LPD, among our foreign workers, 86 persons are from our production department whereas the remaining 8 persons are from our quality assurance and control department. Please refer to Section 4.28 of this Prospectus for further information on our employees.

In addition, any change in foreign worker policy in Malaysia may result in difficulties for our Group to maintain a sufficient workforce for our printing and production activities. Further, our Group's future expansion plans may require a significant amount of labour to meet the increased printing and production activities. Any changes in foreign worker policy may cause disruption in the supply of foreign workers to Malaysia, which may delay the hiring of new foreign workers in time after the expiry of the contracts of the existing foreign workers.

If we are unable to hire sufficient foreign workers, it would result in disruption to our operations which in turn will affect our financial performance.

On 22 June 2020, the Human Resources Minister announced a hiring freeze on foreign workers until end of 2020 with the aim to create more job opportunities for the local workforce in view of the adverse impact from the COVID-19 pandemic which is causing higher unemployment in the country. As at the LPD, our Group is not affected by this hiring freeze as we have sufficient workforce to support our current printing and production activities. We will hire local workers if such need arises during this hiring freeze.

Further, on 29 July 2020, the Government announced that applications to allow for the hiring of foreign workers will be considered in sectors which have high dependency on foreign workers such as construction, agricultural and plantation, once the hiring freeze is lifted at the end of 2020. This may affect our Group's anticipated business growth which is subject to the expansion of our printing and production capacities, where we would require a corresponding increase in foreign labour to meet the increased printing and production activities. If such a decision is enforced, we will be required to hire local workers for general works in our factories, which in turn may result in higher labour cost to our Group. The failure to hire sufficient local workers in replacement of foreign workers will result in disruption to our operations, which in turn will affect our financial performance.

5.1.11 We face credit risk and default/ delay in payments by our customers

Generally, the credit terms granted to our customers range from 30 days to 90 days. Our customers have varying degrees of credit risk profiles which expose us to the risk of non-payment by them. In the event our customers default on their payments, our operating cash flows, financial condition and results of operations could be materially and adversely affected.

Our Group has not experienced any instances of significant bad debts for the FY Under Review. However, there is no assurance that there will be no default on payments by our customers in the future.

In view of the COVID-19 pandemic, we may experience delays in payment/ collection from our customers which may affect our operating cash flow. Under such circumstances, we may discuss with our suppliers to negotiate for a longer credit period than the usual credit period granted by them to better manage our operating cash flow. If such negotiation fails, we may pay our suppliers via internally generated funds to temporary manage the operating cash flow mismatch. There is no assurance that our customers will pay us on time or any of our negotiations with our suppliers for a longer credit period than the usual credit period granted by such suppliers will be successful to ease our operating cash flow.

5.1.12 We are exposed to the fluctuations in foreign exchange rate

Our Group has transactional currency exposure arising from the procurement of imported paper that is denominated in USD. Although the bulk of our papers are purchased from local paper merchants in RM, we are still exposed to fluctuations in foreign exchange rates as the papers are imported by the local paper merchants in USD and the prices of papers sold to us are quoted at the prevailing foreign exchange rates at the point of transaction. In the FYE 2020, approximately 67.72% of our papers are purchased from local paper merchants in RM, while approximately 32.28% of our papers are imported directly from paper mills overseas which are denominated in USD.

Further, we also have transactional currency exposure in USD arising from our sales to the export markets. In the FYE 2020, our export revenue accounted for 27.56% of our Group's total revenue, as set out in Sections 4.10.3 and 8.3.1(i)(b) of this Prospectus.

Currently, we do not have any formal policy with respect to our foreign exchange transactions and have not undertaken any hedging activities as the majority of our revenue and expenses are transacted in RM. Hence, there is no assurance that any significant foreign currency exchange rate fluctuation will not have a material and adverse impact on the revenue and earnings of our Group.

5.1.13 We are subject to the risk of inadequate insurance coverage

We maintain insurance coverage for our material assets and business operations. Currently, the insurance policies taken out by us, include product liability insurance, public liability insurance, machinery and equipment insurance and fire insurance for our buildings, stock and machinery, burglary insurance, contractors all risks insurance and group personal accident insurance. All these insurance coverages are subject to exclusions and limitations of liability both in amount and with respect to the insured events.

However, our current insurance coverage may be inadequate to cover all losses, damages or liabilities. For instance, floods, fires, storms or other events may cause damage to our production facilities in excess of the insurance coverage and may lead to significant costs incurred in connection with remedial and repair work that must be borne by us. Further, we do not have insurance coverage for certain risks such as political risks, terrorism or war. If we suffer a loss or incur a liability arising from insufficiently insured risk or any uninsured risk, our business and operating results may be adversely affected. In addition, our insurance premiums may also increase due to the insurance claims made. In such circumstances, our financial results may be materially and adversely affected.

As at the LPD, we have not encountered any insurance claims which were inadequate to cover our losses, damages or liabilities.

5.1.14 Our printing activities may cause environmental concerns

Our printing and production activities produce certain scheduled wastes such as waste inks, contaminated rags, cloth, absorbents and contaminated containers which are classified under the respective following waste code:

Waste code	Description
SW 409	Disposed containers, bags or equipment contaminated with chemicals, pesticides, mineral oil or scheduled wastes
SW 410	Rags, plastics, papers or filters contaminated with scheduled wastes
SW 417	Waste of inks, paints, pigments, lacquer, dye or varnish

Although these scheduled wastes are not hazardous, we are still required to comply with the Environmental Quality (Scheduled Wastes) Regulations 2005 which control the handling, use, storage and disposal of scheduled waste.

We are required to ensure that all scheduled wastes generated are properly stored, packaged, labelled and collected for treatment and disposal in a timely manner. We have appointed a third-party service provider to collect scheduled waste from our factories in accordance with the Environmental Quality (Scheduled Wastes) Regulations 2005. However, we are unable to eliminate the risk of accidental spillage or discharge of the scheduled wastes, where in such event, we are required to clean up the scheduled wastes. Failure to do so or non-compliance with the regulations may result in our Group incurring penalties in the form of compound payments. Please refer to Section 4.14 of this Prospectus for further information on our management of scheduled waste.

5.2 RISKS RELATING TO OUR INDUSTRY

5.2.1 We are exposed to political, economic and regulatory risks

Any development in the political, economic and regulatory environment in Malaysia as well as in countries where our products are exported to could materially or adversely affect our business operations and financial performance. Such developments include, but are not limited to, changes in political leadership, changes in general economic and business conditions, fluctuations in foreign exchange rates and interest rates, acts of terrorism, riots, expropriation, nationalisation, fiscal and monetary policies of the Government such as inflation, deflation, methods of taxation, tax policies (including SST, excise, duties and tariffs), foreign worker levy and exchange control measures, unemployment trends, deterioration of international bilateral relationships, outbreak of diseases and other matters that influence consumer confidence and spending. Our Group could also be affected by new laws, regulations and guidelines that are introduced to govern printing activities whether in general or specific to the packaging printing industry.

Increasing volatility in financial markets may also cause these factors to change with a greater degree of frequency and magnitude. Unfavourable developments in the socio-political environment in Malaysia may materially and adversely affect our business operations, financial performance and prospects.

For instance, the implementation of the MCO in Malaysia as well as movement and business operation restrictions in other countries due to the COVID-19 pandemic have resulted in the majority of economic activities in the affected countries coming to a halt or disrupted. Prolonged disruption in economic activities will adversely impact businesses, employment and consumer purchasing power. As at the LPD, we have not experienced any cancellation of orders or any indication of cancellation of orders from our customers arising from the COVID-19 pandemic. However, there is no assurance that there will be no impact on the demand for our paper-based packaging due to the COVID-19 pandemic. Any material cancellation of orders or reduction in the demand for our paper-based packaging will adversely impact our financial performance.

5.2.2 We face competition within the packaging printing industry

We operate in a competitive industry and we expect to face competition from existing industry players and potential new market entrants, in terms of product quality, pricing, range of post-press offerings, ability to meet quality requirements, production capabilities and timely delivery, amongst others. In addition, industry players are continuously seeking ways to differentiate from each other, often by improving technical capabilities and increasing production capacity through acquiring additional or new machineries.

According to the IMR Report, as set out in Section 4.32 of this Prospectus, our Group captured a market share of 1.59% against the printing industry size in Malaysia, measured by the total manufacturing sales value of printing of paper products and printing related services of RM5.21 billion in 2019.

The competition we face from existing industry players and potential new market entrants may impact our revenue and profitability as we are required to be more price competitive in order to secure printing orders. Therefore, we are exposed to the risk that we may be unable to compete effectively against our existing or potential competitors, which will have material and adverse effects on our business operations and financial performance.

5.2.3 We are susceptible to shortage in the supply of raw materials

Our main raw materials (i.e. paper and ink) are sourced from local and overseas suppliers in accordance to our production schedule. These raw materials are essential to our printing and production; hence, we would require continuous and stable supply of such raw materials from our suppliers.

Generally, we will recommend the types of paper to be used for the paper-based packaging to our customers. Some of our customers may also specify the paper, in terms of grades, brands and sources and we are required to source the required paper as requested by them. If we are unable to source the requested paper, we will inform our customers on a timely manner and recommend alternative brands and sources of papers. Failure to do so may expose us to risk of losing the order or causing delays in our production which subsequently may adversely affect our reputation and financial performance.

Further, we do not enter into any long-term supply agreements with our suppliers for continuous supply of raw materials. As such, there can be no assurance that we will be able to consistently source paper at competitive pricing and at the quantity required. Our printing, production and delivery may be delayed or disrupted which will materially and adversely affect our business, results of operation and reputation.

As at the LPD, we have not faced any difficulties in sourcing the required paper from our suppliers and we do not expect any immediate disruption to our paper-based packaging printing and production activities as a result of shortage of paper. However, there is no assurance that our Group will be able to source for alternative suppliers, if the circumstances require, that are able to supply raw materials of similar quality and quantity at the existing prices, especially paper, if the COVID-19 pandemic is prolonged. This is because our suppliers may operate in countries with movement and business operation restrictions. Should there be a substantial increase in the cost of paper, our Group may pass on such increased costs to our customers. However, there is no assurance that we will be able to pass on such increased costs to our customers and our Group's financial performance may be affected if we are unable to do so.

5.2.4 We are susceptible to the price fluctuation of paper

Paper, including paperboards in the form of rolls or sheets, art papers, single face corrugated paperboards and chipboards, is our main raw material for paper-based packaging. Paper contributed approximately 79.35%, 56.06% and 36.69% of our total purchases for raw materials and subcontractor works in the FY Under Review. We source paper from overseas suppliers as well as through local suppliers. We source paper which originated from China, South Korea, Indonesia, Sweden, Japan and Spain. Please refer to Section 4.18 of this Prospectus for further details on the types of supplies purchased by our Group under the FY Under Review.

Paper is susceptible to price fluctuations as a result of demand and supply conditions and other factors beyond our control such as production costs of paper, natural disasters, outbreak of diseases, government regulations and general economic conditions. Any unfavourable changes in the above factors may cause material increases in the price of paper, and this may lead to a rise in our cost of production as well as our carrying cost for maintaining our inventories. For instance, in 2017, we experienced price fluctuations for paper originated from China when the Chinese government required paper manufacturers in China to obtain import permits to import recycled wastepaper, which is one of the main raw materials for paper production. This had led to a temporary disruption to the supply of raw materials to produce paper and subsequently affected the supply of paper which caused the price of paper to increase. Nevertheless, the temporary increase in price of paper which originated from China had no major impact towards our Group's operations and financial performance.

In early 2020, we experienced price fluctuations for paper which originated from China due to the COVID-19 pandemic. This was due to the movement and business operation restrictions imposed globally which disrupted the paper industry supply chain. As a result, the supply of raw materials to produce paper was temporarily disrupted, which subsequently affected the supply of paper causing the paper price to increase. Nevertheless, the temporary increase in paper price had no major impact towards our Group's operations and financial performance.
There is no assurance that we will be able to accurately anticipate and react to the changes in the price of paper. If we are unable to pass on the increase in paper prices to our customers, we will bear the increasing costs and this may have a material impact on our financial results.

5.3 RISKS RELATING TO OUR SHARES

5.3.1 There is no prior market for our Shares

There is no public market for our Shares prior to our Listing. Accordingly, there can be no assurance that an active market for our Shares will develop or if developed, that such market can be sustained.

The IPO Price has been determined after taking into consideration a number of factors, including but not limited to, our Group's financial performance, operating history and condition, the prospects of our Group and the industry in which our Group operates, the market prices of shares for companies engaged in businesses similar to our Group on other stock exchanges and the prevailing market conditions.

Further, as we are seeking listing on the ACE Market of Bursa Securities, investment in our Shares may be of a higher investment risk as compared to companies listed on the Main Market of Bursa Securities and that there is no assurance that there will be a liquid market for our Shares traded on the ACE Market. Please refer to the cautionary statement disclosed in the cover page of our Prospectus.

As such, the price at which our Shares will trade on the ACE Market of Bursa Securities is dependent on market forces beyond our control. There can be no assurance that the IPO Price will correspond to the price at which our Shares will trade on the ACE Market of Bursa Securities upon or subsequent to our Listing.

5.3.2 Capital market risks and share price volatility

The performance of Bursa Securities is very much dependent on external factors such as the performance of the regional and world bourses and the flow of foreign funds. Sentiments are also largely driven by internal factors such as the economic and political conditions in Malaysia as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility of trading volumes, thus adding risks to the market price of our Shares.

It is expected that there will be about 10 Market Days after the close of our IPO before the commencement of trading of our Shares on Bursa Securities. We cannot assure you that there will be no event or occurrence that will have an adverse impact on the securities market, our industry or us specifically during this period that would adversely affect the market price of our Shares when our Shares begin trading.

In addition, the market price of our Shares may fluctuate significantly and rapidly in response to, amongst others, the following factors, some of which are beyond our control:

(i) material variations in our business operations and financial performance;

(ii) success or failure of our management in implementing business and growth strategies;

(iii) changes in securities analysts' recommendations, perceptions or estimates of our Group's financial performance;

(iv) changes in conditions affecting the industry, the general economic conditions or stock market sentiments or other events or factors;

(v) changes in market valuations and share prices of companies with similar businesses to our Group that may be listed on Bursa Securities or other stock exchanges;

(vi) additions or departures of our Group Managing Director, Executive Director and key senior management;

(vii) fluctuation in stock market prices and volume; or

(viii) involvement in claims, litigation, arbitration or other form of dispute resolution.

Accordingly, there can be no assurance that our Shares will not trade at prices lower than the IPO Price.

5.3.3 Our Listing is exposed to risk of failure or delay

Our Listing may be aborted or delayed if certain events, including the following occurs:

(i) our Sole Underwriter exercising its rights under the Underwriting Agreement, or our Sole Placement Agent exercising its rights under the placement agreement, to discharge itself of its obligations under such agreements;

(ii) our inability to meet the public shareholding spread requirements under the Listing Requirements of having at least 25% of the total number of our Shares for which Listing is sought being in the hands of at least 200 public shareholders holding not less than 100 Shares each at the point of our Listing; or

(iii) the revocation of approvals from the relevant authorities for our Listing for whatever reason.

Where prior to the issuance and allotment of our IPO Shares:

(i) the SC issues a stop order under Section 245(1) of the CMSA, the applications shall be deemed to be withdrawn and cancelled and we or the Selling Shareholders shall repay all monies paid in respect of the applications for our IPO Shares within 14 days of the stop order, failing which we shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(a) of the CMSA; or

(ii) our Listing is aborted, investors will not receive any IPO Shares, all monies paid in respect of all applications for our IPO Shares will be refunded free of interest.

Where subsequent to the issuance and allotment of our IPO Shares:

(i) the SC issues a stop order under Section 245(1) of the CMSA, any issue of our IPO Shares shall be deemed to be void and all monies received from the applicants shall be forthwith repaid and if any such money is not repaid within 14 days of the date of service of the stop order, we shall be liable to return such monies with interest at the rate of 10.0% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA; or

(ii) our Listing is aborted other than pursuant to a stop order by the SC, a return of monies to our shareholders could only be achieved by way of a cancellation of share capital as provided under the Act and its related rules. Such cancellation can be implemented by either (aa) the sanction of our shareholders by special resolution in a general meeting, consent by our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of the High Court of Malaya, in which case there can be no assurance that such monies can be returned within a short period of time or at all under such circumstances, or (bb) the sanction of our shareholders by special resolution in a general meeting supported by a solvency statement from our Directors.

5.3.4 Significant influence by our Promoters

Upon Listing, our Promoters will collectively hold an aggregate 252,532,298 Shares, representing approximately 65.01% of our enlarged issued share capital. As a result, our Promoters will have significant influence on the outcome of certain matters requiring the vote of our shareholders unless they are required to abstain from voting by law and/or the relevant guidelines or regulations.

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6. RELATED PARTY TRANSACTIONS

6.1 RELATED PARTY TRANSACTIONS

Save as disclosed below, there is no other related party transaction, existing or proposed, entered or to be entered into by our Group which involves the interests, direct or indirect, of our Directors, substantial shareholders and/or persons connected with them for the FY Under Review and up to the LPD:

Transacting parties	Nature of relationship	Nature of transaction	Actual			
			FYE 2018 RM / %	FYE 2019 RM / %	FYE 2020 RM / %	Financial period from 1 June 2020 to the LPD RM
(i) Buyer: HPP Holdings Sellers: Aurora Meadow, Kok Hon Seng, Lau Tee Tee @ Lau Kim Wah, Ng Soh Hoon, Chong Fea Chin and Ang Poh Geok	- Aurora Meadow, Kok Hon Seng, Lau Tee Tee @ Lau Kim Wah, Ng Soh Hoon, Chong Fea Chin and Ang Poh Geok are our substantial shareholders. - Kok Hon Seng, Lau Tee Tee @ Lau Kim Wah and Ng Soh Hoon are also our Directors.	Hayan Prints Acquisition (This is a one-off transaction pursuant to our pre-IPO reorganisation for the Listing)	-	-	53,951,000 / 80.06% of our NA	-
(ii) Buyer: HPP Holdings Sellers: Ng Soh Hoon, Chong Fea Chin and Ang Poh Geok	- Ng Soh Hoon, Chong Fea Chin and Ang Poh Geok are our substantial shareholders. - Ng Soh Hoon is also our Director.	Hayan Packaging Acquisition (This is a one-off transaction pursuant to our pre-IPO reorganisation for the Listing)	-	-	6,001,000 / 8.91% of our NA	-

6. RELATED PARTY TRANSACTIONS *(CONT'D)*

Transacting parties	Nature of relationship	Nature of transaction	Actual			
			FYE 2018 RM / %	FYE 2019 RM / %	FYE 2020 RM / %	Financial period from 1 June 2020 to the LPD RM
(iii) Buyer: Hayan Prints Insurance agent: Ng Soh Moy	Ng Soh Moy is our key senior management and a sister of Ng Soh Hoon, who is our Director, Promoter, substantial shareholder and key senior management. Ng Soh Moy is an insurance agent.	Hayan Prints purchased insurance policies via Ng Soh Moy[(i)]	333,980 / 5.74% of our administrative expenses	363,504 / 5.59% of our administrative expenses	407,987 / 4.81% of our administrative expenses	167,907
(iv) Buyer: Hayan Packaging Insurance agent: Ng Soh Moy		Hayan Packaging purchased insurance policies via Ng Soh Moy[(i)]	10,375 / 0.18% of our administrative expenses	10,605 / 0.16% of our administrative expenses	15,343 / 0.18% of our administrative expenses	3,710
(v) Buyer: Envy Premium Insurance agent: Ng Soh Moy		Envy Premium purchased insurance policies via Ng Soh Moy[(i)]	-	9,313 / 0.14% of our administrative expenses	8,500 / 0.10% of our administrative expenses	8,320
(vi) Buyer: Hayan Prints Service provider: Graphart & Designs Sdn Bhd	Ang Poh Geok is our substantial shareholder and was a director of Graphart & Designs Sdn Bhd prior to her resignation as a director of Graphart & Designs Sdn Bhd with effect from July 2019. Her son has been a director and shareholder of Graphart & Designs Sdn Bhd since November 2013 and May 2017 respectively. Her spouse has been a director and shareholder of Graphart & Designs Sdn Bhd since July 2019 and August 2019 respectively.	Graphart & Designs Sdn Bhd provides sub-printing, binding and folding services to Hayan Prints	-	10,839 / 0.02% of our cost of sales	12,536/ 0.02% of our cost of sales	8,728

6. RELATED PARTY TRANSACTIONS *(CONT'D)*

			Actual			
			FYE 2018	FYE 2019	FYE 2020	Financial period from 1 June 2020 to the LPD
Transacting parties	Nature of relationship	Nature of transaction	RM / %	RM / %	RM / %	RM
(vii) Landlord: Aurora Meadow Tenant: Hayan Prints	Aurora Meadow is our substantial shareholder and Promoter. The shareholders of Aurora Meadow are Kok Hon Seng, Lau Tee Tee @ Lau Kim Wah, Ng Soh Hoon and Chong Fea Chin.	Hayan Prints rents the following properties from Aurora Meadow as accommodation for foreign workers[(ii)]: (i) B3-14, Rumah Pangsa Taman Cheng Ria, Cheng 75250 Melaka; (ii) B4-3, Rumah Pangsa Taman Cheng Ria, Cheng, 75250 Melaka (iii) E4-14, Rumah Pangsa Taman Cheng Ria, Cheng, 75250 Melaka; (iv) E4-20, Rumah Pangsa Taman Cheng Ria, Cheng, 75250 Melaka; (v) F4-12, Rumah Pangsa Taman Cheng Ria, Cheng, 75250 Melaka; (vi) E4-5, Rumah Pangsa Taman Cheng Ria, Cheng, 75250 Melaka; (vii) E4-11, Rumah Pangsa Taman Cheng Ria, Cheng, 75250 Melaka; and (viii) H4-5, Rumah Pangsa Taman Cheng Ria, Cheng, 75250 Melaka.	-	-	40,700 / 0.48% of our administrative expenses	22,000

6. RELATED PARTY TRANSACTIONS *(CONT'D)*

Notes:

(i) The amount represented the premium paid by our Group to the insurance company. The sales commission for the insurance agent was not borne by our Group.

(ii) The salient terms of the tenancy agreements between Aurora Meadow and Hayan Prints are as follows:

(a) in respect of the tenancy agreement dated 11 July 2019 between Aurora Meadow and Hayan Prints for the rental of 1 unit of apartment known as B3-14, Rumah Pangsa Taman Cheng Ria, Cheng 75250 Melaka, the initial term of the tenancy is for 1 year commencing from 1 August 2019 to 31 July 2020 at the monthly rate of RM550. Pursuant to a tenancy renewal letter dated 1 August 2020 from Aurora Meadow and accepted by Hayan Prints, the tenure of the tenancy has been extended for another 1 year from 1 August 2020 to 31 July 2021 at the same monthly rate. Either Aurora Meadow or Hayan Prints may terminate the agreement at any time by giving at least 2 months' prior written notice to the other party. If the rental is in arrears for more than 2 months, Aurora Meadow shall have the full power to take repossession of the said premises. The deposit of 2 months rental shall be forfeited in the event Hayan Prints fails for any reason whatsoever to occupy the said premises for the full term of the tenancy;

(b) in respect of the tenancy agreement dated 25 June 2019 between Aurora Meadow and Hayan Prints for the rental of 1 unit of apartment known as B4-3, Rumah Pangsa Taman Cheng Ria, Cheng, 75250 Melaka, the initial term of the tenancy is for 1 year commencing from 1 July 2019 to 30 June 2020 at the monthly rate of RM550. Pursuant to a tenancy renewal letter dated 1 July 2020 from Aurora Meadow and accepted by Hayan Prints, the tenure of the tenancy has been extended for another 1 year from 1 July 2020 to 30 June 2021 at the same monthly rate. Either Aurora Meadow or Hayan Prints may terminate the agreement at any time by giving at least 2 months' prior written notice to the other party. If the rental is in arrears for more than 2 months, Aurora Meadow shall have the full power to take repossession of the said premises. The deposit of 2 months rental shall be forfeited in the event Hayan Prints fails for any reason whatsoever to occupy the said premises for the full term of the tenancy;

(c) in respect of the tenancy agreement dated 25 June 2019 between Aurora Meadow and Hayan Prints for the rental of 1 unit of apartment known as E4-14, Rumah Pangsa Taman Cheng Ria, Cheng, 75250 Melaka, the initial term of the tenancy is for 1 year commencing from 1 July 2019 to 30 June 2020 at the monthly rate of RM550. Pursuant to a tenancy renewal letter dated 1 July 2020 from Aurora Meadow and accepted by Hayan Prints, the tenure of the tenancy has been extended for another 1 year from 1 July 2020 to 30 June 2021 at the same monthly rate. Either Aurora Meadow or Hayan Prints may terminate the agreement at any time by giving at least 2 months' prior written notice to the other party. If the rental is in arrears for more than 2 months, Aurora Meadow shall have the full power to take repossession of the said premises. The deposit of 2 months rental shall be forfeited in the event Hayan Prints fails for any reason whatsoever to occupy the said premises for the full term of the tenancy;

(d) in respect of the tenancy agreement dated 25 June 2019 between Aurora Meadow and Hayan Prints for the rental of 1 unit of apartment known as E4-20, Rumah Pangsa Taman Cheng Ria, Cheng, 75250 Melaka, the initial term of the tenancy is for 1 year commencing from 1 July 2019 to 30 June 2020 at the monthly rate of RM550. Pursuant to a tenancy renewal letter dated 1 July 2020 from Aurora Meadow and accepted by Hayan Prints, the tenure of the tenancy has been extended for another 1 year from 1 July 2020 to 30 June 2021 at the same monthly rate. Either Aurora Meadow or Hayan Prints may terminate the agreement at any time by giving at least 2 months' prior written notice to the other party. If the rental is in arrears for more than 2 months, Aurora Meadow shall have the full power to take repossession of the said premises. The deposit of 2 months rental shall be forfeited in the event Hayan Prints fails for any reason whatsoever to occupy the said premises for the full term of the tenancy;

(e) in respect of the tenancy agreement dated 11 July 2019 between Aurora Meadow and Hayan Prints for the rental of 1 unit of apartment known as F4-12, Rumah Pangsa Taman Cheng Ria, Cheng, 75250 Melaka, the initial term of the tenancy is for 1 year commencing from 1 August 2019 to 31 July 2020 at the monthly rate of RM550. Pursuant to a tenancy renewal letter dated 1 August 2020 from Aurora Meadow and accepted by Hayan Prints, the tenure of the tenancy has been extended for another 1 year from 1 August 2020 to 31 July 2021 at the same monthly rate. Either Aurora Meadow or Hayan Prints may terminate the agreement at any time by giving at least 2 months' prior written notice to the other party. If the rental is in arrears for more than 2 months, Aurora Meadow shall have the full power to take repossession of the said premises. The deposit of 2 months rental shall be forfeited in the event Hayan Prints fails for any reason whatsoever to occupy the said premises for the full term of the tenancy;

(f) in respect of the tenancy agreement dated 29 October 2019 between Aurora Meadow and Hayan Prints for the rental of 1 unit of apartment known as E4-5, Rumah Pangsa Cheng Ria, Cheng 75250 Melaka, the initial term of the tenancy is for 1 year commencing from 1 November 2019 to 31 October 2020 at the monthly rental of RM550. Pursuant to a tenancy renewal letter dated 8 October 2020 from Aurora Meadow and accepted by Hayan Prints, the tenure of the tenancy has been extended for another 1 year from 1 November 2020 to 31 October 2021 at the same monthly rate. Either Aurora Meadow or Hayan Prints may terminate the agreement at any time by giving at least 2 months' prior written notice to the other party. If the rental is in arrears for more than 2 months, Aurora Meadow shall have the power to take repossession of the said premises. The deposit of 2 months rental shall be forfeited in the event Hayan Prints fails for any reason whatsoever to occupy the said premises for the full term of the tenancy;

(g) in respect of the tenancy agreement dated 29 October 2019 between Aurora Meadow and Hayan Prints for the rental of 1 unit of apartment known as E4-11, Rumah Pangsa Cheng Ria, Cheng 75250 Melaka, the initial term of the tenancy is for 1 year commencing from 1 November 2019 to 31 October 2020 at the monthly rental of RM550. Pursuant to a tenancy renewal letter dated 8 October 2020 from Aurora Meadow and accepted by Hayan Prints, the tenure of the tenancy has been extended for another 1 year from 1 November 2020 to 31 October 2021 at the same monthly rate. Either Aurora Meadow or Hayan Prints may terminate the agreement at any time by giving at least 2 months' prior written notice to the other party. If the rental is in arrears for more than 2 months, Aurora Meadow shall have the power to take repossession of the said premises. The deposit of 2 months rental shall be forfeited in the event Hayan Prints fails for any reason whatsoever to occupy the said premises for the full term of the tenancy; and

(h) in respect of the tenancy agreement dated 29 October 2019 between Aurora Meadow and Hayan Prints for the rental of 1 unit of apartment known as H4-5, Rumah Pangsa Cheng Ria, Cheng 75250 Melaka, the initial term of the tenancy is for 1 year commencing from 1 November 2019 to 31 October 2020 at the monthly rental of RM550. Pursuant to a tenancy renewal letter dated 8 October 2020 from Aurora Meadow and accepted by Hayan Prints, the tenure of the tenancy has been extended for another 1 year from 1 November 2020 to 31 October 2021 at the same monthly rate. Either Aurora Meadow or Hayan Prints may terminate the agreement at any time by giving at least 2 months' prior written notice to the other party. If the rental is in arrears for more than 2 months, Aurora Meadow shall have the power to take repossession of the said premises. The deposit of 2 months rental shall be forfeited in the event Hayan Prints fails for any reason whatsoever to occupy the said premises for the full term of the tenancy.

Our Directors are of the opinion that all the above transactions were carried out on an arm's length basis and on normal commercial terms which are not more favourable to the related parties than those generally available to the public based on quotes for comparable services obtained from third party service provider and/or market price for comparable services.

Upon our Listing, our Directors, through our Audit and Risk Management Committee will review the terms of related party transactions and ensure that any related party transactions (including recurrent transactions, if any) are:

- carried out on an arm's length basis;
- not carried out on terms more favourable to the related parties than those normally agreed with other customers or suppliers; and
- not to the detriment of our minority shareholders.

6.2 RELATED PARTY TRANSACTIONS THAT ARE UNUSUAL IN THEIR NATURE OR CONDITION

For the FY Under Review and up to the LPD, our Group has not entered into any related party transaction that is unusual in their nature or condition.

6. RELATED PARTY TRANSACTIONS *(CONT'D)*

6.3 OUTSTANDING LOANS MADE BY US TO OR FOR THE BENEFIT OF A RELATED PARTY

For the FY Under Review and up to the LPD, our Group has not granted any loan to or for the benefit of a related party.

6.4 FINANCIAL ASSISTANCE PROVIDED FOR THE BENEFIT OF A RELATED PARTY

There is no other financial assistance provided for the benefit of a related party for the FY Under Review and up to the LPD.

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7. CONFLICTS OF INTEREST

7.1 INTEREST IN ENTITIES CARRYING ON A SIMILAR TRADE OR CUSTOMERS OR SUPPLIERS OF OUR GROUP

As at the LPD, save as set out below, none of our Directors or substantial shareholders has any direct or indirect interest in any entity which is carrying on a similar trade as our Group or is a customer or supplier of our Group:

No.	Companies	Directors and/or substantial shareholders involved	Nature	Principal activity	Nature of interest
(1)	Kotra Industries Berhad	• Kok Hon Seng • Lau Tee Tee @ Lau Kim Wah • Ng Soh Hoon • Ang Poh Geok	Kotra Pharma (M) Sdn Bhd is a subsidiary of Kotra Industries Berhad and a customer of our Group	Principally engaged in investment holding activities and provision of management services while its subsidiaries are primarily involved in developing, manufacturing and trading of pharmaceutical and healthcare products	Kok Hon Seng, Lau Tee Tee @ Lau Kim Wah, Ng Soh Soon and Ang Poh Geok hold shares in Kotra Industries Berhad.
(2)	Karex Berhad	• Kok Hon Seng • Lau Tee Tee @ Lau Kim Wah • Ng Soh Hoon • Ang Poh Geok	Certain Karex Berhad's subsidiaries are customers of our Group	Principally engaged in investment holding activities while its subsidiaries are primarily involved in manufacturing and sales of condoms, rubber products, personal lubricants and others, investment holding, manufacturing of pre-vulcanised latex, wholesalers of healthcare products, manufacturing and sale of urinary urethral products, distribution, packaging and marketing of condoms and related products	Kok Hon Seng, Lau Tee Tee @ Lau Kim Wah, Ng Soh Soon and Ang Poh Geok hold shares in Karex Berhad.

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7. CONFLICTS OF INTEREST *(CONT'D)*

Our Board is of the view that the interests of our Directors and substantial shareholders in the companies stated above do not give rise to a conflict of interest situation based on the following:

(i) Kotra Industries Berhad

Kotra Industries Berhad is a company listed on the Main Market of Bursa Securities. It is principally engaged in investment holding activities and provision of management services while its subsidiaries are primarily involved in developing, manufacturing and trading of pharmaceutical and healthcare products.

Our Group sells mainly Non-corrugated packaging to Kotra Pharma (M) Sdn Bhd, a subsidiary of Kotra Industries Berhad. Kotra Pharma (M) Sdn Bhd is not a major customer of our Group and we are not dependent on the said subsidiary of Kotra Industries Berhad. All our sales to the said subsidiary are carried out on an arm's length basis and on normal commercial terms which are not more favourable to Kotra Pharma (M) Sdn Bhd than those generally available to third parties.

Kok Hon Seng, Lau Tee Tee @ Lau Kim Wah, Ng Soh Hoon and Ang Poh Geok are not directors of Kotra Industries Berhad and their shareholdings in Kotra Industries Berhad are for investment purposes and not substantial. As at the LPD, their aggregate shareholdings in Kotra Industries Berhad are less than 3.00% of the share capital of Kotra Industries Berhad. They are also not involved in the day-to-day operations of Kotra Industries Berhad and Kotra Pharma (M) Sdn Bhd.

(ii) Karex Berhad

Karex Berhad is a company listed on the Main Market of Bursa Securities. It is principally engaged in investment holding activities while its subsidiaries are primarily involved in manufacturing and sales of condoms, rubber products, personal lubricants and others, investment holding, manufacturing of pre-vulcanised latex, wholesalers of healthcare products, manufacturing and sale of urinary urethral products, distribution, packaging and marketing of condoms and related products.

Our Group sells mainly Corrugated and Non-corrugated packaging to certain subsidiaries of Karex Berhad. Karex group of companies are our major customers and our Group are dependent on Karex group of companies. Please refer to Section 5.1.1 of this Prospectus on our risk factor dependency on Karex group of companies. All our sales to Karex group of companies are carried out on an arm's length basis and on normal commercial terms which are not more favourable to Karex group of companies than those generally available to third parties.

Kok Hon Seng, Lau Tee Tee @ Lau Kim Wah, Ng Soh Hoon and Ang Poh Geok are not directors of Karex Berhad and their shareholdings in Karex Berhad are for investment purposes and not substantial. As at the LPD, their aggregate shareholdings in Karex Berhad are less than 1.00% of the share capital of Karex Berhad. They are also not involved in the day-to-day operations of Karex group of companies. Notwithstanding Karex group of companies is a major customer of our Group, any disposal of shares in Karex Berhad by them in the future is not expected to have any negative impact towards our Group's relationship with Karex group of companies.

7.2 DECLARATION BY THE ADVISERS

(i) Affin Hwang IB has confirmed that there is no existing or potential conflict of interest in its capacity as the Principal Adviser, Sponsor, Sole Underwriter and Sole Placement Agent in respect of our IPO.

(ii) Sierac has confirmed that there is no existing or potential conflict of interest in its capacity as the Financial Adviser in respect of our IPO. Its scope of work (which is intended to complement the role of Affin Hwang IB) as the Financial Adviser includes the following:

(a) To review the consultation papers for the consultation meeting with Bursa Securities on our eligibility to seek listing on the ACE Market of Bursa Securities;

(b) To review and comment on the submission documents to the relevant authorities and other agencies or bodies ("**Submission Documents**");

(c) To participate in the due diligence exercise on the Submission Documents as well as the Prospectus and other relevant public documents to be issued as a member of the due diligence working group;

(d) To assist us together with the public relations company in our public relations exercise in relation to our listing on the ACE Market of Bursa Securities, which may include analyst briefings and interviews;

(e) To liaise with all professionals and advisers involved in our IPO;

(f) To attend relevant meetings with us and the professional and advisers in relation to our IPO; and

(g) To attend to general matters incidental to our IPO.

(iii) Moore Stephens Associates PLT has confirmed that there is no existing or potential conflict of interest in its capacity as the Auditors and Reporting Accountants in respect of our IPO.

(iv) Chooi & Company + Cheang & Ariff has confirmed that there is no existing or potential conflict of interest in its capacity as the Solicitors in respect of our IPO.

(v) Smith Zander International has confirmed that there is no existing or potential conflict of interest in its capacity as the Independent Market Researcher in respect of our IPO.

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8. FINANCIAL INFORMATION

8.1 HISTORICAL FINANCIAL INFORMATION

8.1.1 Combined statements of comprehensive income

HPP Holdings was incorporated in Malaysia under the Act on 29 November 2018 to facilitate the Listing.

The historical combined financial statements for the FYEs 2018, 2019 and 2020 were prepared as if our Group structure had been in existence throughout the FY Under Review. All intra-group transactions and balances have been eliminated on combination.

The historical financial information presented below should be read in conjunction with the "Management's discussion and analysis of financial condition and results of operations" as set out in Section 8.3 of this Prospectus and the Accountants' Report, together with its related notes as set out in Section 9 of this Prospectus.

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Revenue	64,395	82,681	101,203
Cost of sales	(42,032)	(58,282)	(80,506)
GP	**22,363**	**24,399**	**20,697**
Other income	1,077	1,254	1,368
Administrative expenses	(5,816)	(6,503)	(8,486)
Profit from operations	**17,624**	**19,150**	**13,579**
Finance costs	(714)	(998)	(1,146)
PBT	**16,910**	**18,152**	**12,433**
Income tax expenses	(1,977)	(4,484)	(3,618)
Profit for the financial years, representing total comprehensive income for the financial year	**14,933**	**13,668**	**8,815**
Other comprehensive income, net of tax	-	-	-
Total comprehensive income	**14,933**	**13,668**	**8,815**
Total comprehensive income attributable to:			
- Owners of our Group	14,933	13,336	8,233
- Non-controlling interests	-	332	582
	14,933	**13,668**	**8,815**

8. FINANCIAL INFORMATION *(CONT'D)*

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
GP margin (%)[(i)]	34.73	29.51	20.45
EBITDA[(ii)]	19,961	21,933	17,165
EBITDA margin (%)[(iii)]	31.00	26.53	16.96
PBT margin (%)[(iv)]	26.26	21.95	12.29
PAT margin (%)[(v)]	23.19	16.53	8.71
Basic EPS (sen)[(vi)]	3.84	3.43	2.12
Number of shares in issue after the IPO ('000)	388,430	388,430	388,430

Notes:

(i) GP margin is computed based on the GP over revenue.

(ii) EBITDA is computed based on the following:

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
PAT	**14,933**	**13,668**	**8,815**
Add: Income tax expenses	1,977	4,484	3,618
Finance costs	714	998	1,146
Depreciation	2,381	2,957	3,783
Less: Interest income	(44)	(174)	(197)
EBITDA	**19,961**	**21,933**	**17,165**

(iii) EBITDA margin is computed based on the EBITDA over revenue.

(iv) PBT margin is computed based on the PBT over revenue.

(v) PAT margin is computed based on the PAT over revenue.

(vi) Basic EPS is computed based on PAT attributable to common controlling shareholders of combined entities over our enlarged issued share capital of 388,430,000 Shares after the IPO. Our Group does not have any outstanding convertible securities as at the LPD.

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8.1.2 Combined statement of financial position

The table below sets out our historical audited combined statement of financial position as at 31 May 2018, 31 May 2019 and 31 May 2020 which has been extracted from the Accountants' Report in Section 9 of this Prospectus:

	Audited as at 31 May		
	2018	**2019**	**2020**
	RM'000	**RM'000**	**RM'000**
ASSETS			
Non-Current Assets			
Property, plant and equipment	38,357	45,736	53,386
Current Assets			
Inventories	7,271	8,692	8,977
Trade receivables	17,088	20,037	17,024
Other receivables	984	1,598	522
Tax recoverable	530	-	747
Fixed deposits with licensed banks	2,976	6,173	11,033
Cash and bank balances	12,459	14,142	13,974
	41,308	50,642	52,277
Total Assets	**79,665**	**96,378**	**105,663**
EQUITY AND LIABILITIES			
EQUITY			
Invested capital(i)	51,819	59,155	67,388
Non-controlling interest	-	903	1,926
Total Equity	**51,819**	**60,058**	**69,314**
LIABILITIES			
Non-Current Liabilities			
Borrowings	14,025	16,220	17,684
Deferred tax liabilities	4,314	4,879	5,499
	18,339	21,099	23,183
Current Liabilities			
Borrowings	3,799	4,142	4,410
Lease liability	-	-	193
Trade payables	4,095	7,382	6,659
Other payables	1,613	2,781	1,893
Amounts due to Directors	-	(ii)364	11
Amounts due to shareholders	-	(iii)80	-
Tax payable	-	472	-
	9,507	15,221	13,166
Total Liabilities	27,846	36,320	36,349
Total Equity And Liabilities	**79,665**	**96,378**	**105,663**

	Audited as at 31 May		
	2018	2019	2020
	RM'000	RM'000	RM'000
NA	51,819	59,155	67,388
NA per Share (sen)(iv)	13.34	15.23	17.35
Number of shares in issue after the IPO ('000)	388,430	388,430	388,430

Notes:

(i) Including share capital and retained earnings.

(ii) A total of RM360,000 was capitalised subsequent to the FYE 2019 and RM4,088 was advanced by Directors for the incorporation of HPP Holdings.

(iii) The entire amount was capitalised subsequent to the FYE 2019.

(iv) NA per Share is computed based on NA over our enlarged issued share capital of 388,430,000 Shares after the IPO.

8.2 CAPITALISATION AND INDEBTEDNESS

The following information should be read in conjunction with the Reporting Accountants' Report on Compilation of the Pro Forma Consolidated Statement Financial Position set out in Section 8.8 of this Prospectus.

The table below sets out our Group's capitalisation and indebtedness based on our unaudited management accounts as at 31 October 2020 and adjusted for effects of our IPO and the use of proceeds arising from the Public Issue as set out in Section 2.7 of this Prospectus.

The pro forma information below does not represent our actual capitalisation and indebtedness as at 31 October 2020 and is provided for illustration purposes only.

	(Unaudited) As at 31 October 2020 RM'000	Pro forma I After IPO RM'000	Pro forma II After Pro forma I and use of proceeds RM'000
Indebtedness			
<u>Current</u>			
Secured and guaranteed	4,230	4,230	-
<u>Non-current</u>			
Secured and guaranteed	18,834	18,834	15,281
Total indebtedness	**23,064**	**23,064**	**15,281**
Capitalisation			
Equity attributable to owners of the Company	75,382	107,303	(i)105,280
Non-controlling interests	2,074	2,074	2,074
Total capitalisation	**77,456**	**109,377**	**107,354**
Total capitalisation and indebtedness	**100,520**	**132,441**	**122,635**

Note:

(i) After deducting expenses of approximately RM2.02 million relating to issuance of Shares pursuant to our IPO.

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

The following management's discussion and analysis of our Group's financial condition and results of operations for the FY Under Review should be read in conjunction with the accompanying notes, assumptions and bases thereto included in the Reporting Accountants' Report on Compilation of the Pro forma Consolidated Statement of Financial Position and Accountants' Report as set out in Sections 8.8 and 9 of this Prospectus respectively. The pro forma financial information was prepared based on the assumption that the current structure of our Group had been in existence throughout the FY Under Review.

The discussion and analysis contain data derived from our audited combined financial statements as well as forward-looking statements that involve risks and uncertainties. The actual results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those included in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 5 of this Prospectus.

8.3.1 Review of operations

Our Group is involved in:

(i) printing and production of paper-based packaging comprising Corrugated and Non-corrugated packaging and other paper-based products such as brochures, leaflets, labels, and paper bags; and

(ii) trading and production of rigid boxes.

Please refer to Section 4 of this Prospectus for our Group's detailed business overview. Please also refer to Section 8.3.2 of this Prospectus for significant factors affecting our financial position and results of operations, and Section 5 of this Prospectus for the risk factors that may affect our revenue and financial performance.

The analysis of the financial condition and results of operations of our Group are as detailed below:

(i) Revenue

We have the capability to provide a suite of comprehensive printing services which include pre-press, press and post-press processes for customers covering various end user markets, among others, Consumer E&E, pharmaceutical, sheath contraceptive, and food and beverage.

We provide printing and production of Corrugated and Non-corrugated packaging which is customised according to our customers' packaging design requirements. In addition, we print brochures, leaflets, labels, and paper bags to complement our paper-based packaging. We also trade and produce rigid boxes which can be customised according to our customers' requirements.

We have been sourcing rigid boxes from third party supplier as and when required for onward sale to our customers since March 2018. With the increasing demand for rigid boxes, Hayan Prints has acquired 45% equity interests in Envy Premium which is involved in trading and production of rigid boxes. Since then, Hayan Prints has consolidated the financial statements of Envy Premium based on its 45% equity interests (via board control accorded by the shareholders' agreement as detailed in Section 4.26(iv) of this Prospectus) with the balance of 55% being accounted for as non-controlling interests. Subsequent to the FYE 2019, Hayan Prints has increased the equity interest in Envy Premium to 51% with the balance of 49% being accounted for as non-controlling interests.

Our paper-based packaging comprising Corrugated and Non-corrugated packaging and other paper-based products and rigid boxes are mainly sold locally.

Our local revenue is recognised upon the delivery to and acceptance of our products by our customers. As for overseas, our revenue is recognised upon our products being delivered in accordance to shipping arrangement as agreed by our customers. Our sales are denominated in RM, USD and SGD.

Our Group does not have any pricing policy in place. The selling prices of our Group's products were determined and negotiated on a case-to-case basis and may vary according to factors, including but are not limited to, order volume, customisation requirements, type of material and finishing requirements.

(a) Revenue by product

The table below sets out our revenue by product for the FY Under Review:

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Printing and production						
- Corrugated packaging	28,095	43.63	29,954	36.23	25,167	24.87
- Non-corrugated packaging	32,031	49.74	33,055	39.98	31,482	31.11
- Others[(i)]	4,258	6.61	4,442	5.37	4,567	4.51
Rigid boxes						
- Trading	11	0.02	15,087	18.25	38,667	38.21
- Production	-	-	143	0.17	1,320	1.30
Total	**64,395**	**100.00**	**82,681**	**100.00**	**101,203**	**100.00**

Note:

(i) Comprises brochures, leaflets, labels, and paper bags which are complementary to our paper-based packaging.

Our Group's revenue is mainly derived from printing and production of Corrugated and Non-corrugated packaging, representing approximately 93.37%, 76.21% and 55.98% of our Group's total revenue for the FYE 2018, FYE 2019 and FYE 2020 respectively. For the FYE 2020, revenue derived from trading of rigid boxes represented approximately 38.21% of our Group's total revenue. The Corrugated packaging is mainly comprised of packaging for our customers in Consumer E&E and food and beverage industry. The Non-corrugated packaging is mainly comprised of packaging for our customers in pharmaceutical, sheath contraceptive, and food and beverage industries. The rigid boxes are mainly for customers in the high-end Consumer E&E and health beverages industries.

Our revenue from printing and production of paper-based packaging to existing and new customers secured by our Group is mainly supported by:

(i) our capability to provide full colour offset printing and our paper-based packaging is customisable according to our customers' packaging design requirements;

(ii) our capability to provide a suite of comprehensive printing process which include pre-press, press and post-press;

(iii) our continuous investment in higher technology printing machines; and

(iv) the demand for Consumer E&E, pharmaceutical, sheath contraceptive, and food and beverage products.

(b) Revenue by geographical location

The table below sets out our revenue by geographical location for the FY Under Review:

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Local						
Malaysia	60,259	93.58	78,019	94.36	73,309	72.44
Overseas						
Singapore	1,812	2.81	1,489	1.80	1,278	1.26
Thailand	2,034	3.16	2,386	2.89	5,616	5.55
Philippines	-	-	-	-	19,437	19.21
Others[i]	290	0.45	787	0.95	1,563	1.54
	4,136	6.42	4,662	5.64	27,894	27.56
Total	**64,395**	**100.00**	**82,681**	**100.00**	**101,203**	**100.00**

Note:

(i) Comprises sales from Myanmar, USA, Germany and Taiwan.

Our revenue is mainly derived from our customers in Malaysia constituting 93.58%, 94.36% and 72.44% of our total revenue for the FY Under Review. Our main revenue contribution from overseas is from the Philippines, Singapore and Thailand contributing a combined total of 5.97%, 4.69% and 26.02% of our total revenue for the FY Under Review.

Commentary on revenue

FYE 2018 vs FYE 2019

Our Group's revenue increased by approximately RM18.29 million or 28.40% from approximately RM64.40 million in the FYE 2018 to approximately RM82.68 million in the FYE 2019.

This was mainly attributable to:

(i) increase in revenue from the trading and production of rigid boxes of approximately RM15.22 million from our direct/ indirect major customers in the Consumer E&E industry (the revenue from trading of rigid boxes for the FYE 2018 is negligible) as rigid boxes complement certain paper-based packaging of our major customers in the Consumer E&E industry;

As set out in Section 4.11(iv) of this Prospectus, printed artwork on the art papers can be laminated onto the rigid boxes; or printed artwork on paperboards can be made into sleeves to be wrapped around the rigid boxes, which are often used for Consumer E&E products.

(ii) increase in orders for Corrugated packaging by approximately RM1.86 million or 6.62% from one of our major customers in the Consumer E&E industry; and

(iii) increase in orders for Non-Corrugated packaging by approximately RM1.02 million or 3.20% from one of our major customers in the food and beverage industry.

By geographical location, the increase of our Group's revenue locally in the FYE 2019 by approximately RM17.76 million or 29.47% as compared to the FYE 2018 was mainly due to an increase in sales of rigid boxes to our major customers as described above.

FYE 2019 vs FYE 2020

Our Group's revenue increased by approximately RM18.52 million or 22.40%, from approximately RM82.68 million in the FYE 2019 to approximately RM101.20 million in the FYE 2020.

This was mainly attributable to increase in orders for rigid boxes from one of our major customers in the Consumer E&E industry by approximately RM23.58 million.

However, the increase was partially offset by the following:

(i) decrease in orders for Corrugated packaging by approximately RM4.79 million or 15.98% was mainly from one of our major customers in the Consumer E&E industry; and

(ii) decrease in orders for Non-Corrugated packaging by approximately RM1.57 million or 4.76% was mainly from one of our major customers in the food and beverage industry.

By geographical location, the increase of our Group's revenue overseas in the FYE 2020 by approximately RM23.23 million as compared to the FYE 2019 was mainly due to sales of rigid boxes which was delivered to our indirect customers' operations in the Philippines. However, the increase was partially offset by a decrease of RM4.71 million or 6.04% in our Group's revenue locally.

As a result of the temporary cessation of operations during the MCO period, our Group's revenue for March 2020 and April 2020 declined by approximately 34.70% and 70.66% to approximately RM6.21 million and RM2.79 million, respectively, as compared to the average monthly revenue from June 2019 to February 2020 of approximately RM9.51 million. Upon resumption of operations, the orders from our major customers have gradually increased from May 2020.

(ii) Cost of sales

Our Group's cost of sales mainly comprises raw materials, direct labour costs, subcontractor costs, factory overheads and cost of rigid boxes.

Our cost of sales is mainly affected by changes in the cost of raw materials and our ability to source and negotiate for better terms with our suppliers.

Our Group does not maintain cost of sales by geographical location as our accounting system does not capture such information. Accordingly, such information is not available.

Please refer to Section 4.30 of this Prospectus for further information on our Group's major suppliers.

(a) Cost of sales by components

The table below sets out our cost of sales by components for the FY Under Review:

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Raw materials	27,856	66.27	28,521	48.94	26,958	33.49
Direct labour	5,328	12.68	6,515	11.18	8,028	9.97
Subcontractor cost	3,644	8.67	3,861	6.62	3,386	4.20
Factory overheads	5,194	12.36	6,446	11.06	10,124	12.58
Cost of rigid boxes	10	0.02	12,939	22.20	32,010	39.76
Total	**42,032**	**100.00**	**58,282**	**100.00**	**80,506**	**100.00**

Raw materials

Our Group's paper-based raw materials accounted for approximately 89.97%, 90.93% and 82.07% of our Group's total cost of raw materials for the FYE 2018, FYE 2019 and FYE 2020 respectively and comprise sheet paperboards, rolled paperboards, art papers, chipboards and single face corrugated paperboards. The paper-based raw materials are used in printing and production of Corrugated and Non-corrugated packaging as well as production of rigid boxes.

Other raw materials consist mainly of ink, being solvent ink and soy-based solvent ink, die cut blocks, glue, packing materials and water-based varnish and paper laminate materials, which accounted for approximately 10.03%, 9.07% and 17.93% of our Group's total cost of raw materials for the FYE 2018, FYE 2019 and FYE 2020 respectively.

These raw materials are generally widely available and sourced from both local and foreign suppliers, including suppliers specified by our customers for paper and ink.

The prices of these raw materials are mainly influenced by the overall market supply and demand conditions. Our Group has not experienced any major shortages in the supply of our raw materials to-date. However, our Group is still susceptible to price fluctuation of paper. For more information on the risk of shortage in the supply of raw materials, please refer to Section 5.2.3 of this Prospectus.

Direct labour

Direct labour accounted for approximately 12.68%, 11.18% and 9.97% of our Group's total cost of sales for the FYE 2018, FYE 2019 and FYE 2020 respectively.

Direct labour mainly consists of salaries, bonuses, employees' provident fund contributions and other employment benefits for production staff.

Subcontractor costs

Subcontractor costs accounted for approximately 8.67%, 6.62% and 4.20% of our Group's total cost of sales for FYE 2018, FYE 2019 and FYE 2020 respectively.

As at the LPD, we engage 2 subcontractors for finishing works including calendaring, UV varnishing, gloss or matte laminating and hot stamping as our Group does not have the machines to execute these works. Subcontractors' charges include varnishing materials and the workmanship charges involved in delivering the outsourced job. The charges for the subcontractor works will be negotiated between the subcontractor and our Group based on the surface area that requires the finishing works and the volume of orders.

Factory overheads

Factory overheads accounted for approximately 12.36%, 11.06% and 12.58% of our Group's total cost of sales for the FYE 2018, FYE 2019 and FYE 2020 respectively.

Factory overheads consist mainly of the following:

(i) depreciation on plant and machineries;

(ii) upkeep of machineries and factories;

(iii) factory and equipment rentals and utilities; and

(iv) forwarding and handling charges and transport charges.

Cost of rigid boxes (for trading)

We started trading rigid boxes through Hayan Prints in March 2018.

Subsequently, during the FYE 2019, we acquired Envy Premium which is involved in trading and production of rigid boxes.

The cost of rigid boxes for the FYE 2018 was negligible. The cost of rigid boxes accounted for approximately 22.20% and 39.76% of our Group's total cost of sales for the FYE 2019 and FYE 2020 respectively.

The cost of rigid boxes (for trading) comprises purchase of completed rigid boxes from a third party supplier for onward sales to our customers.

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(b) Cost of sales by product

The table below sets out our cost of sales by product for the FY Under Review:

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Printing and production						
- Corrugated packaging	18,818	44.77	20,110	34.51	18,353	22.80
- Non-corrugated packaging	21,768	51.79	22,928	39.34	23,549	29.25
- Others(i)	1,436	3.42	1,721	2.95	2,119	2.63
Rigid boxes						
- Trading	10	0.02	13,384	22.96	35,200	43.72
- Production	-	-	139	0.24	1,285	1.60
Total	**42,032**	**100.00**	**58,282**	**100.00**	**80,506**	**100.00**

Note:

(i) Comprises brochures, leaflets, labels, and paper bags which are complementary to our paper-based packaging products.

The majority of our Group's cost of sales is attributable to the printing and production of Corrugated and Non-corrugated packaging. For the FYE 2020, trading of rigid boxes was our Group's single largest cost of sales component. The movements in our Group's cost of sales were in line with the movements of our Group's revenue throughout the FY Under Review.

Commentary on cost of sales

FYE 2018 vs FYE 2019

Our cost of sales increased by approximately RM16.25 million or 38.66%, from approximately RM42.03 million in the FYE 2018 to approximately RM58.28 million in the FYE 2019. This was in line with the increase in our revenue, contributed mainly from the printing of Corrugated and Non-corrugated packaging during FYE 2019.

The increase in cost of sales was mainly due to:

(i) usage of raw materials in the printing and production of Corrugated and Non-Corrugated packaging as well as production of rigid boxes, which increased by approximately RM0.67 million or 2.39%;

(ii) the cost of rigid boxes, which increased by approximately RM12.93 million (the revenue and the cost of sales relating to trading of rigid boxes in the FYE 2018 were negligible). The increase was in line with increase in orders for rigid boxes from an existing customer and orders from a new customer;

(iii) direct labour in employing production staff, which increased by approximately RM1.19 million or 22.28%. The average of 143 personnel in the FYE 2018 increased to an average of 201 personnel in the FYE 2019 to cater for the increase in orders for paper-based packaging and diversification into production of rigid boxes; and

(iv) increase in factory overheads of approximately RM1.25 million or 24.10% as a result of increase of the following:

(a) depreciation on our property, plant and equipment by approximately RM0.47 million due to additional property, plant and equipment acquired;

(b) increase in utilities cost by approximately RM0.21 million or 29.89% mainly due to electricity charges incurred for the cooling system installed during the FYE 2019 for our large format printing machine;

(c) upkeep of machinery of RM0.17 million; and

(d) rental of a factory and warehouse relating to trading and production of rigid boxes of RM0.33 million.

FYE 2019 vs FYE 2020

Our cost of sales increased by approximately RM22.22 million or 38.13%, from approximately RM58.28 million in the FYE 2019 to approximately RM80.51 million in the FYE 2020. This was in line with the increase in our revenue, contributed mainly from the trading of rigid boxes during the FYE 2020.

The increase in cost of sales was mainly due to:

(i) the cost of rigid boxes which increased by RM19.07 million or 147.39% which was in line with increase in sales of rigid boxes to our major customers in the Consumer E&E industry;

(ii) direct labour in employing production staff which increased by approximately RM1.51 million or 23.22%. The average of 201 personnel in the FYE 2019 increased to an average of 225 personnel in the FYE 2020 was mainly for printing and production of Corrugated and Non-corrugated packaging and production of rigid boxes.

We recruited additional staff for QC works to ensure our printed packaging met the quality standards required by our customers. Further, the salary for production staff in production of rigid boxes increased in line with the machine utilisation rate of 69.52% for the FYE 2020 as compared to the machine utilisation rate of 13.37% for the FYE 2019.

(iii) factory overheads which increased by approximately RM3.68 million or 57.06% as a result of an increase in:

(a) forwarding and handling charges of approximately RM2.98 million mainly due to the sales of rigid boxes which was delivered to the Philippines; and

(b) depreciation of additional property, plant and equipment acquired of approximately RM0.79 million.

Furthermore, we continued to incur labour cost and factory overheads during our temporary cessation of operations period from 18 March 2020 to 28 March 2020 for Hayan Prints and from 18 March to 19 April 2020 for Envy Premium.

However, the increase in cost of sales was partially offset by the following:

(a) usage of raw materials in the printing and production of Corrugated and Non-Corrugated packaging as well as production of rigid boxes which decreased by approximately RM1.56 million or 5.48%; and

(b) subcontractor costs decreased by approximately RM0.48 million or 12.30% as a result of less varnishing and laminating works required for Non-corrugated packaging for our customers.

(iii) GP and GP margin

(a) GP and GP margin by products

The table below sets out our GP and GP margin by products for the FY Under Review:

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
GP	RM'000	%	RM'000	%	RM'000	%
Printing and production						
- Corrugated packaging	9,277	41.48	9,844	40.35	6,814	32.92
- Non-corrugated packaging	10,263	45.89	10,127	41.50	7,933	38.33
- Others(i)	2,822	12.62	2,721	11.15	2,448	11.83
Rigid boxes						
- Trading	1	0.01	1,703	6.98	3,467	16.75
- Production	-	-	4	0.02	35	0.17
Total	**22,363**	**100.00**	**24,399**	**100.00**	**20,697**	**100.00**

	Audited		
	FYE 2018	FYE 2019	FYE 2020
GP margin	%	%	%
Printing and production			
- Corrugated packaging	33.02	32.86	27.08
- Non-corrugated packaging	32.04	30.64	25.20
- Others(i)	66.28	61.26	53.60
GP margin	**34.73**	**33.64**	**28.09**
Rigid boxes			
- Trading	9.09	11.29	8.97
- Production	-	2.80	2.65
GP margin	**9.09**	**11.21**	**8.76**
Overall GP Margin	(ii)**34.73**	**29.51**	**20.45**

Notes:

(i) Comprises brochures, leaflets, labels, and paper bags which are complementary to our paper-based packaging products.

(ii) The overall GP margin is approximately the same as the GP margin for the printing and production segment as the GP contributed by trading of rigid boxes was negligible (0.01% of the total GP contribution) for the FYE 2018.

Printing and production of Corrugated and Non-corrugated packaging is our Group's main GP contributor.

Commentary on GP and GP margin

FYE 2018 vs FYE 2019

Our Group's GP increased by approximately RM2.04 million or 9.10% from approximately RM22.36 million for the FYE 2018 to approximately RM24.40 million for FYE 2019 mainly due to the GP contributed by trading and production of rigid boxes of approximately RM1.71 million for the FYE 2019.

Our Group's GP margin (excluding trading and production of rigid boxes) decreased from approximately 34.73% for the FYE 2018 to approximately 33.64% for the FYE 2019 mainly due to:

(i) decrease in GP margin of Corrugated packaging due to lower GP per unit as a result of higher factory overheads due to upkeep and maintenance and depreciation of a large format printing machine which was operational in the FYE 2018 with low utilisation rate;

(ii) decrease in the GP margin of Non-corrugated packaging due to:

  (a) increased subcontractor costs which lowered GP margin as more varnishing and laminating works were required for Non-corrugated paper-based packaging for our customers; and

  (b) lower price per unit offered to one of our major customers due to higher volume of order from them;

(iii) decrease in the GP margin of others products by approximately 5.02% for the FYE 2019 due to less folding process (a high GP margin process) required for production of instruction manual; and

Our GP margin for trading and production of rigid boxes increased from approximately 9.09% for FYE 2018 to 11.21% for the FYE 2019 mainly due to increase in GP of trading of rigid boxes from RM1,000.00 to RM1.70 million coupled with the increase in GP margin of trading of rigid boxes from 9.09% to 11.29%.

However, our Group's overall GP margin decreased from approximately 34.73% for the FYE 2018 to approximately 29.51% for the FYE 2019 mainly due to the following:

(i) the trading and production of rigid boxes for the FYE 2019 contributed RM15.23 million or 18.42% (FYE 2018: RM11,000 or 0.02%) to our revenue but only contributed RM1.71 million or 7.00% to our GP for the FYE 2019; and

(ii) the GP margin contributed by trading and production of rigid boxes was lower at 11.21% compared to the GP margin contributed by Corrugated and Non-corrugated packaging and others of 33.64% (as set out in table above).

FYE 2019 vs FYE 2020

Our Group's GP decreased by approximately RM3.70 million or 15.17% from approximately RM24.40 million for the FYE 2019 to approximately RM20.70 million for the FYE 2020 mainly due to the following:

(i) decrease in GP contributed by Corrugated packaging by approximately RM3.03 million or 30.78%; and

(ii) decrease in GP contributed by Non-corrugated packaging by approximately RM2.19 million or 21.66%.

The above decrease was partially offset by increase in GP contributed by trading of rigid boxes of approximately RM1.76 million or 103.58%.

Our Group's GP margin (excluding trading and production of rigid boxes) decreased from approximately 33.64% for the FYE 2019 to approximately 28.09% for the FYE 2020 mainly due to the following:

(i) decrease in GP margin of Corrugated packaging as a result of:

(a) higher factory overheads due to the upkeep and maintenance and depreciation of a large format printing machine which became operational in the FYE 2018 while the utilisation rate continued to remain low.

The low utilisation rate of our large format printing machine was in line with the lower revenue from Corrugated packaging as a result of lower orders received from one of our major customers in the Consumer E&E industry during the FYE 2020; and

(b) higher staff cost as our production staff increased from an average of 201 personnel in the FYE 2019 to an average 225 personnel in the FYE 2020 including additional staff recruited for QC works to ensure our printed packaging met the quality standards required by our customers.

(ii) decrease in the GP margin of Non-corrugated packaging as a result of:

(a) higher depreciation as a new standard format printing machine became operational in January 2020. The average utilisation rate for our standard format printing machines was 97.14% in the FYE 2019 compared to the average utilisation rate of 88.44% in the FYE 2020.

The lower utilisation rate of the standard format printing machines was in line with the lower revenue from Non-corrugated packaging as a result of lower orders received from one of our major customers in the food and beverage industry during the FYE 2020; and

(b) higher staff cost as our production staff increased from an average of 201 personnel in the FYE 2019 to an average 225 personnel in the FYE 2020 including additional staff recruited for QC works to ensure our printed packaging met the quality standards required by our customers.

Our Group's GP margin for trading and production of rigid boxes decreased from approximately 11.21% for the FYE 2019 to approximately 8.76% for the FYE 2020 mainly due to the higher forwarding and handling charges incurred for sales of rigid boxes which was delivered to the Philippines.

Our Group's overall GP margin decreased from approximately 29.51% for the FYE 2019 to approximately 20.45% for the FYE 2020 mainly due to the following:

(i) the trading and production of rigid boxes for the FYE 2020 contributed approximately RM39.99 million or 39.51% (FYE 2019: RM15.23 million or 18.42%) to our revenue but only contributed approximately RM3.50 million or 16.92% to our GP for the FYE 2020; and

(ii) the GP margin contributed by trading and production of rigid boxes was lower at approximately 8.76% compared to the GP margin contributed by Corrugated and Non-corrugated packaging and others of approximately 28.09% (as set out in table above).

(iv) Other income

The table below sets out our other income for the FY Under Review:

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Interest income	45	4.18	174	13.88	197	14.40
Realised gain on foreign exchange	-	-	38	3.03	272	19.88
Unrealised gain on foreign exchange	34	3.16	20	1.59	76	5.56
Gain on disposal of property, plant and equipment	115	10.68	-	-	-	-
Gain on sales of paper waste	835	77.53	615	49.04	398	29.09
Storage fee	48	4.45	252	20.10	386	28.22
Gain on combination from investment	-	-	140	11.16	-	-
Others(i)	-	-	15	1.20	39	2.85
Total	**1,077**	**100.00**	**1,254**	**100.00**	**1,368**	**100.00**

Note:

(i) Mainly comprised of refund of quit rent, insurance surplus and government subsidy.

<u>**Commentary on other income**</u>

FYE 2018 vs FYE 2019

Our Group's other income increased by approximately RM0.18 million or 16.43% from approximately RM1.08 million for the FYE 2018 to approximately RM1.25 million for FYE 2019.

The increase in the other income was mainly attributable to the following:

(i) increase in interest income from fixed deposits by RM0.13 million from approximately RM0.05 million in the FYE 2018 to approximately RM0.17 million in the FYE 2019 as we placed additional fixed deposits of RM3.08 million with the licensed banks;

(ii) increase in storage income by RM0.20 million from provision of storage space to our customers for finished goods.

We provide storage space as a value-added service for certain of our major customers in view of the large orders they placed with us for which we charge storage fee. The average storage period is approximately 14 days; and

(iii) recognition of a gain on combination from investment amounted to RM0.14 million pursuant to the acquisition of Envy Premium.

However, the above increase was partially offset by the following:

(i) our Group does not record any gain on disposal of property, plant and equipment as compared to the gain on sales of company car for RM0.12 million in the previous financial year; and

(ii) decrease in gain on sales of paper waste by RM0.22 million due to:

(a) decrease average price of scrap paper from RM0.50 per metric tonne in the FYE 2018 to RM0.35 per metric tonne in the FYE 2019; and

(b) improvement on managing the positioning of the printing area of the packaging to reduce wastage.

FYE 2019 vs FYE 2020

Our Group's other income increased by approximately RM0.11 million or 9.09% from approximately RM1.25 million for the FYE 2019 to approximately RM1.37 million for the FYE 2020.

The increase in the other income was mainly attributable to the following:

(i) increase in interest income from fixed deposits by RM0.02 million from approximately RM0.17 million in the FYE 2019 to approximately RM0.20 million in the FYE 2020 as we placed additional fixed deposits of RM4.86 million with the licensed banks;

(ii) increase in realised gain on foreign exchange by approximately RM0.23 million due to:

(a) the stronger exchange rate of USD against RM in the FYE 2020 (average rate of RM4.20: USD1.00) as compared to the FYE 2019 (average rate of RM4.11: USD1.00); and

(b) higher revenue was collected in USD as a result of sales of rigid boxes which was delivered to the Philippines.

(iii) increase in storage income by RM0.13 million from approximately RM0.25 million in the FYE 2019 to approximately RM0.39 million in the FYE 2020. As the sales of rigid boxes to one our major customers had increased, this major customer required more storage space for finished goods.

However, the above increase was partially offset by the decrease in gain on sales of paper waste by RM0.22 million due to a decrease in average price of scrap paper from RM0.35 per metric tonne in the FYE 2019 to RM0.23 per metric tonne in the FYE 2020.

(v) Administrative expenses

Administrative expenses accounted for approximately 9.03%, 7.87% and 8.39% of our Group's revenue for the FYE 2018, FYE 2019 and FYE 2020 respectively.

The table below sets out a breakdown of our administrative expenses for the FY Under Review:

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Administrative expenses						
Bank charges	52	0.89	14	0.22	29	0.34
Depreciation of property, plant and equipment	359	6.17	463	7.12	496	5.85
Directors' remuneration	949	16.32	922	14.18	1,146	13.50
Impairment of trade receivables	-	-	70	1.08	12	0.14
Insurance	299	5.14	378	5.81	454	5.35
Inventories written down	129	2.22	17	0.26	-	-
Professional fees	345	5.93	636	9.78	1,501	17.69
Sales commission	1,215	20.89	1,429	21.97	2,039	24.03
Security charges	72	1.24	75	1.15	135	1.59
Staff costs	988	16.99	1,343	20.65	1,513	17.83
Stamp duty	64	1.10	13	0.20	1	0.01
Travelling & transportation expenses	679	11.67	572	8.80	449	5.29
Realised loss on foreign exchange	65	1.12	-	-	-	-
Unrealised loss on foreign exchange	16	0.28	-	-	-	-
Upkeep and maintenance	236	4.06	255	3.92	289	3.41
Utilities	84	1.44	86	1.32	112	1.32
Others[(i)]	264	4.54	230	3.54	310	3.65
Total	**5,816**	**100.00**	**6,503**	**100.00**	**8,486**	**100.00**

Note:

(i) Comprised of advertisement, donation to non-profit organisations, licence fees, filing fees and quit rent and assessment.

Our Group's administrative expenses comprise mainly the following:

(i) staff costs (excluding production staff) which include salary and wages, bonus, EPF, SOCSO and EIS contributions, allowances and training;

(ii) directors' remuneration which include salary, directors' fee, EPF, SOCSO and EIS contributions;

(iii) sales commission;

(iv) depreciation of property, plant and equipment; and

(v) travelling and transportation expenses which include the travelling expenses incurred for sales and marketing activities as well as delivery expenses (as detailed out in Section 4.13 of this Prospectus).

Payment of sales commission is conditional upon payment received from our customers. The sales commission is mostly from the sales of our Corrugated paper-based packaging and rigid boxes. Please refer to Section 4.19(i) of this Prospectus for further details on payment of commission to sales agent. As at the LPD, we have 1 sales employee who is entitled to sales commission and the sales commission is 1.5% of the total collected invoice amount.

Transportation expenses comprise external transport services, petrol, toll and parking.

Commentary on administrative expenses

FYE 2018 vs FYE 2019

For FYE 2019, our Group's administrative expenses increased by approximately RM0.69 million or 11.81% from approximately RM5.82 million in the FYE 2018 to RM6.50 million in the FYE 2019.

The increase in the administrative expenses during the financial year was mainly due to the following:

(i) professional fees increased by approximately RM0.29 million was incurred pursuant to the Listing;

(ii) sales commission increased by approximately RM0.21 million in line with the increase in revenue for Corrugated packaging and rigid boxes as we paid sales commission to our sales agents for most of our revenue derived from Corrugated paper-based packaging and rigid boxes; and

(iii) staff costs increased by approximately RM0.36 million due to the yearly salary increment and performance bonus for our employees. Further, we have increased our number of employees from an average of 15 personnel as at 31 May 2018 to an average of 18 personnel as at 31 May 2019 due to business expansion. 2 new employees were recruited for our customer service department and 1 employee was existing employee of Envy Premium.

FYE 2019 vs FYE 2020

For the FYE 2020, our Group's administrative expenses increased by approximately RM1.98 million or 30.49% from approximately RM6.50 million in the FYE 2019 to RM8.49 million in the FYE 2020.

The increase in the administrative expenses during the financial year was mainly due to the following:

(i) professional fees increased by approximately RM0.87 million and this was incurred mainly due to the Listing;

(ii) sales commission increased by approximately RM0.61 million in line with the increase in revenue for rigid boxes as we paid sales commission to our sales agents for most of our revenue derived from rigid boxes;

(iii) directors' remuneration increased by approximately RM0.22 million due to yearly salary increments for executive directors as well as payment of director fees to independent directors appointed during the financial year; and

(iv) staff costs increased by approximately RM0.17 million due to the yearly salary increments and performance bonuses for our employees. Further, we increased our number of employees from an average of 18 personnel as at 31 May 2019 to an average of 20 personnel as at 31 May 2020 due to our business expansion. One new employee was recruited for overseeing operations of Envy Premium and another 1 employee for customer service department.

Furthermore, we continued to incur administrative expenses such as directors' remuneration, insurance, staff costs as well as upkeep and maintenance expenses of our office during our temporary cessation of operations period from 18 March 2020 to 28 March 2020 for Hayan Prints and from 18 March to 19 April 2020 for Envy Premium. As a result of the above together with those reasons as detailed in Sections 8.3.1(iii) and 8.3.1(vii) of this Prospectus, our Group has recorded lower GP margin and subsequently lower PBT margin for the FYE 2020.

(vi) Finance costs

The table below sets out our finance costs for the FY Under Review:

	Audited					
	FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%
Term loan interest	686	96.08	969	97.09	1,112	97.03
Hire purchase interest	28	3.92	29	2.91	16	1.40
Lease liability[(i)]	-	-	-	-	18	1.57
Total	**714**	**100.00**	**998**	**100.00**	**1,146**	**100.00**

Note:

(i) Represents the interest expense recognised on amortisation of the lease liability related to a rented factory located in Krubong, Melaka pursuant to application of Malaysian Financial Reporting Standard ("**MFRS**") 16.

Our finance costs mainly consist of interest expense incurred on our term loans to finance our acquisition for machineries, acquisitions of factories and acquisitions of land for construction of factories.

Commentary on finance costs

FYE 2018 vs FYE 2019

Our finance costs increased by approximately RM0.28 million or 39.78% from approximately RM0.71 million for the FYE 2018 to RM1.00 million for the FYE 2019. The increase in finance costs during the financial year was mainly due to the following:

(i) partial drawdown of term loan of approximately RM1.23 million in total between August 2018 and February 2019 for construction of factory on Lot 4763;

(ii) full drawdown of term loan of RM4.00 million for the purchase of a factory on Lot 4799 in April 2019;

(iii) full drawdown of term loan of approximately RM0.37 million for purchase of a die-cutting machine in February 2019; and

(iv) consolidation of bank borrowings of approximately RM0.67 million from Envy Premium (which was a term loan drawn down to finance the acquisition of the rigid boxes production line) pursuant to the acquisition during FYE 2019. As at the LPD, Envy Premium does not have other outstanding hire purchase or bankers' acceptance.

FYE 2019 vs FYE 2020

Our finance costs increased by approximately RM0.15 million or 14.83% from approximately RM1.00 million for the FYE 2019 to RM1.15 million for the FYE 2020. The increase in finance costs during the financial year was mainly due to the following:

(i) full drawdown of term loan of approximately RM4.90 million for purchase of a standard format printing machine in November 2019; and

(ii) full drawdown of term loan of approximately RM0.55 million for the purchase of a gluing machine and a CTP machine in November 2019.

(vii) PBT and PBT margin

Our Group's PBT and PBT margin for the FY Under Review are set out below:

	Audited		
	FYE 2018	FYE 2019	FYE 2020
PBT (RM'000)	16,910	18,152	12,433
PBT margin (%)	26.26	21.95	12.29

<u>Commentary on PBT and PBT margin</u>

FYE 2018 vs FYE 2019

For the FYE 2019, our Group's revenue increased by approximately RM18.29 million or 28.40%, whilst our Group's GP increased by approximately RM2.04 million or 9.10%. However, our Group's overall GP margin decreased by approximately 5.22% due to the trading and production of rigid boxes during the FYE 2019 which yielded lower GP margin.

Our Group's PBT increased by approximately RM1.24 million or 7.34% from a PBT of approximately RM16.91 million in the FYE 2018 to a PBT of approximately RM18.15 million in the FYE 2019.

However, our PBT margin decreased in the FYE 2019 as compared to the FYE 2018 mainly due to the following:

(i) increase in sales of rigid boxes which has a lower GP margin as compared to printing and production of paper-based packaging. Further details on the GP and GP margin relating to trading and production of rigid boxes are set out in Section 8.3.1(iii) of this Prospectus; and

(ii) increase in administrative expenses in the FYE 2019 was mainly due to expenses incurred in relation to the Listing which are non-recurrent in nature and staff costs.

FYE 2019 vs FYE 2020

For the FYE 2020, our Group's revenue increased by approximately RM18.52 million or 22.40%, whilst our Group's GP decreased by approximately RM3.70 million or 15.17%. Further, our Group's overall GP margin decreased by approximately 9.06%.

Following from the decrease in our Group's GP and increase in administrative expenses as detailed in Section 8.3.1(v) above, our Group's PBT decreased by approximately RM5.72 million or 31.51% from a PBT of approximately RM18.15 million in the FYE 2019 to a PBT of approximately RM12.43 million in the FYE 2020.

(viii) Taxation

Our Group's taxation together with the comparison between our effective and statutory tax rates for the FY Under Review are set out below:

	Audited		
	FYE 2018	FYE 2019	FYE 2020
Tax expense (RM'000)	970	3,989	2,997
Deferred tax (RM'000)	1,007	495	621
Taxation (RM'000)	**1,977**	**4,484**	**3,618**
Effective tax rate (%)	11.69	24.70	29.10
Statutory tax rate (%)	24.00	24.00	24.00

Taxation comprises current financial year's income tax and any under or overprovision of taxation in the previous financial year.

For the FYE 2018, our Group's effective tax rate was 11.69%. The effective tax rate for the FYE 2018 was 12.31% lower than the statutory tax rate of 24% mainly due to tax savings arising from reinvestment allowance of RM1.73 million relating to acquisition of factory, printing machines and over provision of income tax in the prior year of RM0.55 million, partially offset by non-deductible expenses of RM0.21 million.

For the FYE 2019, our Group's effective tax rate was 24.70%. The effective tax rate for the FYE 2019 was 0.70% higher than the statutory tax rate of 24% was mainly due to expiry of reinvestment allowance in the financial year and non-deductible expenses of RM0.13 million.

For the FYE 2020, our Group's effective tax rate was 29.10%. The effective tax rate for the FYE 2020 was 5.10% higher than the statutory tax rate of 24% mainly due to:

(i) under provision of income tax expenses and deferred tax expenses amounting to approximately RM0.23 million and RM0.26 million respectively for tax assessment pertaining to the FYE 2019 which was recognised during the year. Provision of income tax expenses and deferred tax expenses is made on the bases of best estimate in the context of auditors, thus actual income tax expenses and deferred tax expenses may differ from the provision made for both income tax expenses and deferred tax expenses; and

(ii) non-deductible expenses of RM0.17 million.

For the FY Under Review, we do not have any outstanding or provision for withholding tax.

(ix) PAT and PAT margin

Our Group's PAT and PAT margin for the FY Under Review are set out below:

	Audited		
	FYE 2018	FYE 2019	FYE 2020
PAT (RM'000)	14,933	13,668	8,815
PAT margin (%)	23.19	16.53	8.71

The variance between PAT margins for the FY Under Review was a result of the reasons described in Sections 8.3.1(vii) and (viii) with regard to PBT and PBT margins and taxation expenses above.

8.3.2 Significant factors affecting our financial position and results of operations

After taking into consideration the risk factors relating to our business and industry as set out below and in Section 5 of this Prospectus, we are of the opinion that our future financial conditions and results are favourable and our Group will remain as a going concern:

(i) Price fluctuation of paper

Our paper suppliers are paper merchants in Malaysia as well as paper merchants and paper mills from overseas (i.e. China, Japan and Spain). Paper is susceptible to price fluctuations as a result of demand and supply conditions and other factors beyond our control such as production costs of paper, natural disasters, government regulations, general economic conditions, and rising labour costs. Any unfavourable changes in the conditions of any of the above factors may cause material increases in the price of paper.

Any increase in the cost of paper-based materials may adversely affect our gross profit and gross profit margin, if we are unable to increase the selling price of our paper-based packaging correspondingly.

(ii) Demand and supply conditions

Our Group's revenue and profit are dependent on the demand and supply for paper-based packaging. The demand and supply conditions for the Consumer E&E, pharmaceutical, sheath contraceptive and food and beverage industries are set out in the IMR Report in Section 4.32 of this Prospectus.

(iii) Foreign exchange rate fluctuation

Our Group has transactional currency exposure arising from the procurement of imported paper that is denominated in USD. Although our papers are mainly purchased from local paper merchants in RM, we are still exposed to fluctuations in foreign exchange rates as the papers are imported by the local paper merchants in USD and the prices of papers sold to us are quoted at the prevailing foreign exchange rates at the point of transaction. Further, we also have transactional currency exposure arising from our provision of paper-based packaging for export market that are denominated in USD. Our aforesaid income and expenses denominated in USD may provide a natural hedge.

Our net gain or loss from realised and unrealised on foreign exchange for the FY Under Review are as follows:

	Audited		
	FYE 2018	FYE 2019	FYE 2020
	RM'000	RM'000	RM'000
Realised gain/ (loss) on foreign exchange	(65)	38	272
Unrealised gain/ (loss) on foreign exchange	18	20	76
Net gain/ (loss) on foreign exchange	**(47)**	**58**	**348**

We currently do not have a formal policy with respect to our foreign exchange transactions and have not undertaken any hedging activities as the majority of our revenue and expenses are transacted in RM. Hence, there is no assurance that any significant foreign currency exchange fluctuation will not have a material and adverse impact on the revenue and profits of our Group. Please refer to Section 5.1.11 of this Prospectus for risks relating to foreign exchange rate fluctuation.

(iv) Impact of inflation

The business, financial condition or results of our operations for the FY Under Review were not materially affected by the impact of inflation.

(v) Government/ Economic/ Fiscal/ Monetary policies

We are subject to the risks of government, economic, fiscal or monetary policies, where any unfavourable change may materially affect our business operations and financial performance. For the FY Under Review, our results were not adversely affected by any unfavourable changes relating to government, economic, fiscal or monetary policies.

Please refer to Section 5.2.1 of this Prospectus for risks relating to government, economic, fiscal or monetary policies or factors which may materially affect our operations.

(vi) Competition

We operate in a competitive industry and we expect to face competition from existing industry players and potential new market entrants, in term of product quality, pricing, pre-press, press, post-press processes, ability to meet quality requirements, production capabilities and timely delivery, amongst others.

Therefore, we are exposed to the risk that we may be unable to compete effectively against our existing or potential competitors, which may materially and adversely affect our business and financial performance.

(vii) Disruption due to COVID-19 pandemic

Outbreak of diseases may cause disruptions to our business operations. For instance, the Government implemented the MCO from 18 March 2020 to 3 May 2020 which prohibited mass movements and gatherings across Malaysia and imposed closure of all business premises (save for businesses involved in the provision of essential services or as approved by MITI) due to the COVID-19 pandemic.

In view of the MCO, we temporarily ceased our operations on 18 March 2020. Hayan Prints and Envy Premium have resumed operations on 30 March 2020 and 20 April 2020 respectively at reduced capacity after obtaining the approval from MITI to operate during the MCO period, subject to the conditions imposed by MITI. Subsequently, following the announcement by MITI that economic sectors which were allowed to operate during the MCO period are allowed to resume operations at full capacity starting from 29 April 2020, our Group has fully resumed our operations since 29 April 2020.

In addition, all of our Group's major customers (or indirect customer of which we are dependent on, as the case may be) for the FY Under Review are now allowed to operate fully notwithstanding that the recovery/ conditional MCO (as the case may be) is still being imposed by the Government.

However, any worsening condition of the COVID-19 pandemic or revocation of the recovery MCO in place of a stricter MCO or closure of our operations may lead to disruption of our business operations and potential cancellation of orders which may adversely impact our financial performance.

8.3.3 Significant changes on the financial position and results

The movement or business operation restrictions imposed by the Government on the business operations of our Group and our customers during certain phases of the MCO period have resulted in a decrease in our Group's monthly revenue from March 2020 to April 2020.

In addition, we may experience delays in payment/ collection from our customers which may affect our operating cash flow as disclosed in Section 5.1.10 of this Prospectus.

Nonetheless, the outbreak of COVID-19 has not resulted in any material impairment to our assets (including inventories or receivables) for the FYE 2020 or affected our Group's ability to continue our business as a going-concern.

We continued to incur fixed expenses such as labour cost, factory overheads and certain administrative expenses during the temporary cessation of our operations. This together with those reasons as detailed in Sections 8.3.1(iii) and 8.3.1(vii) of this Prospectus have resulted in a lower GP margin and subsequently lower PBT margin for the FYE 2020.

As at 31 May 2020, our Group incurred additional cost of approximately RM0.01 million to implement precautionary measures at our factories/ offices to minimise the risk of COVID-19 infections and to ensure compliance with the standard operating procedures imposed by the Government. Such additional cost incurred did not have a material impact on our Group's financial results for the FYE 2020

Save as disclosed above, there are no significant changes which may have a material effect on the financial position and results of our Group subsequent to the FYE 2020 and up to the LPD.

8.4 LIQUIDITY AND CAPITAL RESOURCES

8.4.1 Working capital

Our working capital is funded through cash generated from our operating activities, credit extended by our suppliers, various credit facilities extended to us by financial institutions as well as our existing cash and bank balances.

As at 31 May 2020, we have cash and bank balances of approximately RM13.97 million and short-term deposits placed with licensed banks as security for our banking facilities of approximately RM11.03 million and unutilised credit facilities of RM8.73 million. As at 31 May 2020, we have working capital of RM39.11 million being the difference between current assets of RM52.28 million and current liabilities of RM13.17 million.

After taking into consideration the disruptions to our operations due to the COVID-19 pandemic during the FYE 2020, our working capital resources, funding requirements for capital commitments, the expected funds to be generated from operating activities for the same period and the estimated net proceeds from the Public Issue, our Board is of the view that we will have sufficient working capital for a period of 12 months from the date of this Prospectus. We are confident that we can meet our cash obligations.

8.4.2 Cash flow summary

The table below sets out the summary of our Group's combined statements of cash flows for the FY Under Review, and should be read in conjunction with the Accountants' Report as set out in Section 9 of this Prospectus.

Our cash and cash equivalents are mostly held in RM and some amount in USD and SGD. Where cash is held in USD and SGD, there may be an exchange rate fluctuation effect on the cash held.

8. FINANCIAL INFORMATION *(CONT'D)*

There are no legal, financial or economic restrictions on the ability of our subsidiaries to transfer/receive funds to/from our Company, subject to availability of distributable reserves and compliance with financial covenants, in the form of cash dividends, loans or advances.

	Audited		
	FYE 2018	FYE 2019	FYE 2020
	RM'000	RM'000	RM'000
Net cash from operating activities	14,845	15,490	14,173
Net cash used in investing activities	(2,083)	(2,235)	(5,418)
Net cash used in financing activities	(9,706)	(8,506)	(4,198)
Net increase in cash and cash equivalents	**3,056**	**4,749**	**4,557**
Effect of foreign exchange rate changes	(41)	17	20
Cash and cash equivalents at beginning of the financial year	11,456	14,471	19,237
Cash and cash equivalents at the end of the financial year	**14,471**	**19,237**	**23,814**
Cash and cash equivalents comprise the following:			
• Cash and bank balances	12,459	14,142	13,974
• Fixed deposits with licensed banks	2,976	6,173	11,033
	15,435	20,315	25,007
Less:			
• Fixed deposits pledged as security	(964)	(1,078)	(1,193)
	14,471	**19,237**	**23,814**

<u>**Commentary of cash flow**</u>

FYE 2018

(i) Net cash from operating activities

For FYE 2018, our operating cash flows before working capital changes were approximately RM19.96 million. After adjusting for the following key items, our net operating cash flow was approximately RM14.85 million:

(a) the increase in our inventories consisting of raw materials by approximately RM1.54 million due to higher sales expected in FYE 2019;

(b) the increase in our trade and other receivables by approximately RM0.33 million due to the increase in orders from our customers in the last quarter of FYE 2018 as compared to the corresponding period in the previous financial year and slow payment from our customers;

(c) the increase in our trade and other payables by approximately RM0.48 million due to increase in purchase of raw materials;

(d) payment of interest of approximately RM0.71 million for bank borrowings; and

(e) tax payment of approximately RM3.27 million.

(ii) Net cash used in investing activities

For the FYE 2018, we recorded net cash used in investing activities of approximately RM2.08 million mainly due to the following:

(a) acquisition of a large format printing machine of approximately RM1.53 million;

(b) acquisition and renovation of a factory on Lot 4776 of approximately RM0.69 million; and

(c) receipt of proceeds of approximately RM0.12 million from disposal of property, plant and equipment.

(iii) Net cash used in financing activities

The net cash used in financing activities of approximately RM9.71 million in the FYE 2018 was mainly due to the following:

(a) repayment of bank borrowings of approximately RM4.12 million which was mainly obtained for the acquisitions of land on Lot 4763 and Lot 4754 and a factory on Lot 4776; and

(b) payment of dividends to our shareholders of approximately RM5.58 million.

FYE 2019

(i) Net cash from operating activities

For the FYE 2019, our operating cash flows before working capital changes were approximately RM21.86 million. After adjusting for the following key items, our net operating cash flow was approximately RM15.49 million:

(a) the increase in our inventories consisting of raw materials by approximately RM1.44 million due to higher sales expected in the next 6 months;

(b) the increase in our trade and other receivables by approximately RM0.46 million due to the increase in orders from our customers in the last 2 months of the FYE 2019;

(c) the decrease in our trade and other payables by approximately RM0.64 million as we paid our creditors when the payment fell due;

(d) interest payment of approximately RM1.00 million for bank borrowings; and

(e) tax payment of approximately RM3.01 million.

(ii) Net cash used in investing activities

For the FYE 2019, we recorded net cash used in investing activities of approximately RM2.24 million mainly due to the following:

(a) construction of a factory on Lot 4763 (which commenced in FYE 2018) of approximately RM1.59 million;

(b) acquisition of a factory on Lot 4799 of approximately RM1.36 million;

(c) acquisition of 2 die-cutting machines of approximately RM0.69 million;

(d) acquisition of various handfeed die-cutting machines, digital cutter, densitometer and gluing machines of approximately RM0.47 million;

(e) construction of a warehouse on Lot 4776 of approximately RM0.36 million;

(f) acquisition of computers, software and office equipment of approximately RM0.33 million; and

(g) consolidation of cash flow of approximately RM2.72 million pursuant to the acquisition of Envy Premium by Hayan Prints.

(iii) Net cash used in financing activities

The net cash used in financing activities of approximately RM8.51 million in the FYE 2019 was mainly due to the following:

(a) repayment of bank borrowings of approximately RM2.51 million which mainly obtained for the purposes of the acquisitions of lands on Lot 4763 and Lot 4754 and factory on Lot 4776; and

(b) payment of dividends to our shareholders of RM6.00 million.

FYE 2020

(i) Net cash from operating activities

For the FYE 2020, our operating cash flows before working capital changes were approximately RM17.10 million. After adjusting for the following key items, our net operating cash flow was approximately RM14.17 million:

(a) the increase in our inventories consisting of raw materials by approximately RM0.28 million in anticipation of higher sales in the next 6 months;

(b) the decrease in our trade and other receivables by approximately RM4.13 million due to the following:

  (i) the sales of rigid boxes which was delivered to the Philippines were on credit terms of less than 30 days; and

  (ii) the long outstanding receivables amounting to RM0.85 million were collected during the FYE 2020.

(c) the decrease in our trade and other payables by approximately RM1.78 million as we paid our creditors when the payment fell due;

(d) interest payment of approximately RM0.98 million for bank borrowings; and

(e) tax payment of approximately RM4.38 million.

(ii) Net cash used in investing activities

For the FYE 2020, we recorded net cash used in investing activities of approximately RM5.42 million mainly due to the following:

(a) refurbishment of a factory on Lot 4799 of approximately RM0.78 million which was completed in January 2020;

(b) acquisition of various machines including an automatic die-cutting machine, a UV varnishing machine and an air compressor of approximately RM1.99 million;

(c) acquisition of a standard format printing machine of approximately RM1.27 million;

(d) acquisition of a sheeting machine of approximately RM0.50 million;

(e) acquisition of paper waste balling system of approximately RM0.33 million; and

(f) acquisition of air-conditioners, furniture and fittings for factory at Lot 4763 of approximately RM0.24 million.

(iii) Net cash used in financing activities

The net cash used in financing activities of approximately RM4.20 million in the FYE 2020 was mainly due to the following:

(a) repayment of bank borrowings of approximately RM4.01 million which included loans obtained for the purposes of the acquisitions of standard format printing machine, gluing machine and CTP machine; and

(b) repayment of lease liability related to a rented factory located in Krubong, Melaka of approximately RM0.19 million.

8.4.3 Borrowings

Our Company's total outstanding borrowings as at 31 May 2020 are as follows:

	Audited outstanding as at 31 May 2020				
Type of facility	Payable within 12 months (RM'000)	Payable after 12 months (RM'000)	Total (RM'000)	Interest rate (%)	Tenure (Years)
Hire purchase	139	107	246	4.48 – 6.15	1 to 3
Term loan	4,271	17,577	21,848	4.41 – 6.80	3 to 15
Total	**4,410**	**17,684**	**22,094**		

Subsequent to the FYE 2020, we have drawn down a RM1.00 million term loan as additional working capital relating to production of rigid boxes.

Subsequent to the FYE 2020, we had repaid bank borrowings of approximately RM0.22 million and our total outstanding bank borrowings is approximately RM23.06 million as at the LPD.

We have not defaulted on payments of either interest and/or principal sums in relation to any borrowings of our Group throughout the FY Under Review and up to the LPD. We do not encounter seasonality in the trend of our borrowings and there are no restrictions on the use of our committed borrowings facilities.

Furthermore, as at the LPD, we are not in breach of any terms and conditions or covenants associated with the credit arrangements or bank borrowings which can materially affect our financial position and results or business operations or investments by holders of our securities.

8.4.4 Financial instruments, treasury policies and objectives

Our treasury objectives are to maintain sufficient working capital to finance our operations and meet our anticipated commitments arising from operational expenditure and financial liabilities, if any, by maintaining adequate liquidity and credit facilities. We manage our liquidity to ensure access to sufficient funding at acceptable costs to meet our business needs and financial obligations throughout our business cycles.

Our liquidity and funding objectives are designed to meet our funding requirements, which include primarily purchases of raw materials, wages and salaries, interest and principal payments on outstanding bank borrowings, if any, and general obligations such as administrative expenses and term deposits pledged for banking facilities. We have historically relied on cash generated from our operating activities, credit extended by our suppliers, credit lines such as bankers acceptance and term loans. Our funding objective is to obtain the most suitable types of financing and favourable cost of funding as our financing needs arise. Bank borrowings are negotiated with a view to secure the best possible terms and rates of interest.

Our cash and cash equivalents are held mostly in RM. Our revenue is typically denominated in RM. We do not use any hedging instruments in our daily operations. We maintain our cash inflow in a USD and SGD denominated bank account. USD will be used to purchase paper which provides us with a natural foreign currency hedge. As at 31 May 2020, our exposure to SGD was relatively minimal at approximately SGD0.22 million (equivalent to approximately RM0.68 million based on the exchange rate of RM3.08: SGD1.00). Our Board reviews the foreign currency risks and strategies as needed to mitigate adverse impacts that may result from fluctuation in foreign currency exchange rates.

We are exposed to foreign currency risk as a result of transactions entered into in currencies other than RM. Our exposure primarily consists of trade receivables and trade payables.

8.4.5 Material Capital Commitment

Save as disclosed below, as at the LPD, we do not have any material capital commitment:

	Amount RM'000
(i) Approved but not contracted for - plant and machinery	(i)8,292
(ii) Approved and contracted for - plant and machinery	6,306
Total	**14,598**

Note:

(i) Subsequent to the LPD, a total of RM0.54 million relating to acquisition of plant and machinery has been approved but not contracted for. Such capital commitment will be funded via internally generated funds.

As at the LPD, the material capital commitment of our Group relating to the acquisition of plant and machinery amounting to approximately RM14.60 million. We intend to fund these capital commitments as follows:

(i) RM13.03 million via the proceeds raised from our Public Issue as detailed in Section 2.7.1 of this Prospectus;

(ii) RM0.70 million via a combination of bank borrowings and internally generated funds as detailed in Section 4.25.2 of this Prospectus; and

(iii) RM0.87 million via bank borrowings.

8.4.6 Material litigation or claims

As at the LPD, neither our Company nor our subsidiaries are engaged in any governmental, legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings which may have or have had, material or significant effects on our financial position or profitability, in the 12 months immediately preceding the date of this Prospectus.

8.4.7 Contingent liabilities

As at the LPD, we do not have any material contingent liabilities which have become enforceable or are likely to become enforceable, which in the opinion of our Board, will or may substantially affect the ability of our Group to meet our obligations as and when they fall due.

8.4.8 Key financial ratios

Our key financial ratios are as follows:

	Audited		
	FYE 2018	FYE 2019	FYE 2020
Trade receivables turnover (days)(i)	95	82	67
Trade payables turnover (days)(ii)	35	36	32
Inventories turnover (days)(iii)	60	50	40
Current ratio (times)(iv)	4.35	3.33	3.97
Gearing ratio (times)(v)	0.34	0.34	0.33

Notes:

(i) Computed based on the average between the opening and closing of the trade receivables over our Group's revenue for the respective financial years multiplied by 365 days.

(ii) Computed based on the average between the opening and closing of the trade payables over our Group's cost of sales for the respective financial years multiplied by 365 days.

(iii) Computed based on the average between the opening and closing of the inventories over our Group's cost of sales for the respective financial years multiplied by 365 days.

(iv) Computed based on current assets over current liabilities as at the respective financial years ended.

(v) Computed based on the total borrowings over shareholders' equity as at the respective financial years ended.

(i) Trade receivables turnover

A summary of our Group's trade receivables for the FY Under Review is set out below:

	Audited		
	FYE 2018	FYE 2019	FYE 2020
	RM'000	RM'000	RM'000
Trade receivables(i)	17,088	20,037	17,024
Revenue	64,395	82,681	101,203
Trade receivables turnover (days)(ii)	95	82	67

Notes:

(i) Balances of trade receivables as at the respective financial years ended.

(ii) Computed based on the average between the opening and closing of the trade receivables over our Group's revenue for the respective financial years multiplied by 365 days.

The normal credit period generally granted to our customers ranges between 30 days to 90 days. Our credit terms to customers are assessed and approved on a case-to-case basis taking into consideration various factors such as relationship with customers, customers' payment history, credit worthiness, transaction volume, financial background, market reputation as well as the customers' ability to pay.

Trade receivables turnover period of approximately 95 days in the FYE 2018 was higher than the normal credit period given. This was mainly due to higher sales to our customers in the last quarter of FYE 2018 and slow payment from customers. The slow payment was mainly due to one of our long-term customers who had, as we were made to understand, its cash flow tied up with the launching of a new product in FYE 2018. However, as at the LPD, this customer has fully paid off the outstanding amount via monthly instalments.

Trade receivables turnover period of approximately 82 days in the FYE 2019 was within the normal credit period given. This was mainly due to our revenue increasing by 28.40% in the FYE 2019 and that our major customers who contributed to the increase, had been on average, paying within the 90 days credit period granted.

Trade receivables turnover period of approximately 67 days in the FYE 2020 was within the normal credit period given. This was mainly due to the following:

(i) the sales of rigid boxes which was delivered to the Philippines were on credit terms of less than 30 days; and

(ii) the long outstanding receivables amounting to RM0.85 million were collected during the FYE 2020.

Notwithstanding the COVID-19 pandemic during the FYE 2020, our Group's customers have generally been paying within the credit period granted during the FYE 2020. Further, our Group has not experienced any instances of significant bad debts for the FY Under Review. Our Group will assess the collectability of trade receivables on an individual customer basis and impairment will be made for those customers where recoverability is uncertain based on our past dealings with customers.

Ageing analysis of trade receivables as at 31 May 2020

	0 – 90 days	91 – 120 days	121 – 180 days	> 180 days	Total
Trade receivables (RM'000)	9,998	2,952	2,215	1,859	17,024
% of trade receivables	58.73	17.34	13.01	10.92	100.00
Subsequent collections as at the LPD (RM'000)	9,485	2,915	2,215	1,859	16,474
Outstanding trade receivables as at the LPD (RM'000)	513	37	-	-	550

As at 31 May 2020, our total trade receivables stood at approximately RM17.02 million of which approximately RM7.03 million or 41.27% of our trade receivables exceeded the normal credit period.

As at the LPD, we have collected approximately RM16.47 million representing approximately 96.77% of the trade receivables as at 31 May 2020.

Our Board is of the opinion that the remaining trade receivables balance as at the LPD are recoverable after taking into consideration the long term relationship between most of these customers with our Group, and the various credit control measures as set out in our standard operating procedure for credit control implemented by our Group to minimise the incidence of customers' default.

Save for the impairment of trade receivables of RM0.01 million in the FYE 2020, there were no other impairment of trade receivables for the FY Under Review. The aforesaid impairment of trade receivable was due to the application of MFRS 9 Financial Instruments and had amongst others, taken into consideration invoices which were past due more than 365 days, historical credit loss rate of trade receivables and macroeconomic factors.

(ii) Trade payables turnover

A summary of our Group's trade payables for the FY Under Review is set out below:

	Audited		
	FYE 2018	FYE 2019	FYE 2020
	RM'000	RM'000	RM'000
Trade payables[(i)]	4,095	7,382	6,659
Cost of sales	42,032	58,282	80,506
Trade payables turnover (days)[(ii)]	35	36	32

Notes:

(i) Balances of trade payables as at the respective financial years ended.

(ii) Computed based on the average between the opening and closing of the trade payables over our Group's cost of sales for the respective financial years multiplied by 365 days.

The normal credit period generally granted to our Group by our suppliers ranges between 30 days to 90 days. To maintain good relationships with our suppliers, we will make payment to the suppliers as they fall due. In addition, we purchased most of our paper-based raw materials on cash terms to secure better pricing which resulted in our trade payables turnover being substantially lower than the credit period granted of 90 days.

For the FY Under Review, we recorded trade payables turnover period which was within the normal credit period granted by our suppliers. The trade payables turnover period had been consistent during the FY Under Review.

As at the LPD, there is no dispute in respect of trade payables and no legal action initiated by our suppliers to demand for payment.

Ageing analysis of trade payables as at 31 May 2020

	0 - 60 days	61 - 90 days	91 - 120 days	> 120 days	Total
Trade payables (RM'000)	6,618	6	-	35	6,659
% of trade payables	99.38	0.09	-	0.53	100.00
Subsequent payments as at the LPD (RM'000)	6,618	6	-	35	6,659

As at 31 May 2020, our total trade payables stood at approximately RM6.66 million with approximately RM0.04 million or 0.53% of our trade payables exceeded the normal credit period. Notwithstanding the 90 days credit terms granted by our rigid boxes supplier, it was agreed that the payment to supplier would only be made upon collection of payment from our major customers.

As at the LPD, we have paid all the trade payables which were outstanding as at 31 May 2020.

(iii) Inventories turnover

Our inventories mainly comprise raw materials such as papers, varnish and laminate materials, and hot stamping materials, work-in-progress and finished goods.

A summary of our Group's inventories for the FY Under Review is set out below:

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Inventories			
Raw materials	6,085	6,253	7,190
Work-in-progress	399	188	302
Finished goods	787	2,251	1,485
Total	**7,271**	**8,692**	**8,977**
Cost of sales	42,032	58,282	80,506
Inventories turnover period (days)[(i)]	60	50	40

Note:

(i) Computed based on the average between the opening and closing of the inventories over our Group's cost of sales for the respective financial years multiplied by 365 days.

As part of our strategy to deliver our products on time, we stock up certain papers such as paperboards, art papers and chipboards which have an average delivery lead time of between 1.5 months to 4 months to ensure minimal disruption to our production.

The inventories turnover period decreased from approximately 60 days in FYE 2018 to approximately 50 days in FYE 2019. This was due to substantial increase in cost of sales relating to trading of rigid boxes as set out in Section 8.3.1(ii)(a). In addition, the paper size required for printing of paper-based packaging from our customers was consistent in size and hence we were not required to stock up on various paper sizes. We expect this to be the case moving forward.

The inventories turnover period decreased from approximately 50 days in the FYE 2019 to approximately 40 days in the FYE 2020. This was due to substantial increase in cost of sales relating to trading of rigid boxes as set out in Section 8.3.1(ii)(a) of this Prospectus.

We review our slow moving/obsolete inventories of more than 12 months by taking into consideration the shelf life and possible frequency of demand of such inventories. As our management's judgement and estimates are required, possible changes in these estimates could result in impairment to the inventories.

Save for the inventories written down of approximately RM0.13 million and RM0.02 million in FYE 2018 and FYE 2019 respectively, we are of the opinion that there is no material slow moving/obsolete inventories as at the LPD, premised on the following:

(a) raw materials such as papers used for the printing of the Corrugated and Non-corrugated packaging have a 6-months warranty by the suppliers and up to 2 years of shelf life;

(b) work-in-progress comprised goods without a packing slip and finished goods which are ready for delivery; and

(c) finished goods will be sent to customers within a month.

(iv) Current ratio

A summary of our Group's current ratio for the FY Under Review is set out below:

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Current assets	41,308	50,642	52,277
Current liabilities	9,507	15,221	13,166
Current ratio (times)$^{(i)}$	4.35	3.33	3.97

Note:

(i) Current ratio is computed based on current assets over current liabilities as at the respective financial years ended.

The current ratio of approximately 4.35 times as at 31 May 2018 was mainly due to placement of cash as fixed deposits with licensed banks during the FYE 2018.

The current ratio decreased from approximately 4.35 times as at 31 May 2018 to approximately 3.33 times as at 31 May 2019 mainly due to increase in trade payables recorded as at 31 May 2019. The increase in trade payables was due to increase in revenue derived from trading of rigid boxes where payment to supplier will be only be made upon collection of payment from our major customers.

The current ratio increased from approximately 3.33 times as at 31 May 2019 to approximately 3.97 times as at 31 May 2020 was mainly due to the increase in the amount of cash which we placed as fixed deposits with licensed banks. In addition, our current liabilities have also decreased mainly due to the decrease in trade and other payables as well as the absence of tax payable as at 31 May 2020.

(v) Gearing ratio

Our Group does not have any board policy for gearing ratio. A summary of our Group's gearing ratio for the FY Under Review is set out below:

	Audited		
	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Total borrowings	17,824	20,362	22,094
Shareholders' equity	51,819	59,155	67,388
Gearing ratio (times)$^{(i)}$	0.34	0.34	0.33

Note:

(i) Gearing ratio is computed based on the total borrowings over shareholders' equity as at the respective financial years ended.

The gearing ratio during the FY Under Review remained similar as our total borrowings increased at a similar rate compared to our shareholders' equity.

As at the LPD, we have total outstanding bank borrowings of approximately RM23.06 million. For illustrative purposes, based on the Group's total bank borrowings as at the LPD and the shareholders' equity as at 31 May 2020 of approximately RM67.39 million, the gearing ratio of the Group is 0.34 times.

8.5 TREND INFORMATION

As at the LPD, our Board confirms that there are no:

(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 financial performance, position and operations, save as disclosed in this Section, Section 4 and Section 5 of this Prospectus;

(ii) material commitment for capital expenditure, save as disclosed in Section 8.4.5 of this Prospectus;

(iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations on our Group, save as disclosed in this Section and in Section 5 of this Prospectus;

(iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our Group's total revenue and/or profits save as disclosed in this Section, business and industry overview, as set out in Section 4 of this Prospectus, and business strategies and future plans as set out in Section 4.25 of this Prospectus;

(v) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of the future financial performance and position, save as disclosed in this Section and in Section 5 of this Prospectus; and

(vi) 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 liquidity and capital resources, save as disclosed in this Section and in Sections 4 and 5 of this Prospectus.

Our Board is optimistic about our future prospects given the outlook of the packaging printing industry as set out in Section 4.32 of this Prospectus, our competitive position as set out in Section 4.15 of this Prospectus and our commitment to implement the business strategies and future plans as set out in Section 4.25 of this Prospectus.

8.6 DIVIDEND POLICY

As we are a holding company, our Company's income and ability to pay dividends are dependent upon the dividends received from our subsidiaries. The payment of dividends by our subsidiaries is dependent upon their distributable profits, financial performance and cash flow requirements for operations and capital expenditure as well as other factors.

It is the intention of our Board to recommend and distribute a dividend of at least 20% of our annual audited PAT attributable to the shareholders of our Company. Any dividend declared will be subject to recommendation of our Board and any final dividends declared will be subject to the approval of our shareholders at our AGM.

You should take note that this dividend policy merely describes our Group's current intention and shall not constitute legally binding statements in respect of our Group's future dividends that are subject to our Board's absolute discretion.

When recommending the actual dividends for approval by shareholders or when declaring any interim dividends, our Board will consider, amongst others:

(i) our anticipated future operating conditions as well as future expansion, capital expenditures and investment plans;

(ii) our operating cash flow requirements and financing commitments;

(iii) our expected financial performance including return on equity and retained earnings;

(iv) any restrictive covenants contained in our current and future financing arrangements;

(v) the availability of adequate reserves and cash flows; and

(vi) any material impact of tax laws and regulatory requirements.

Actual dividends proposed and declared may vary depending on the financial performance and cash flows of our Company, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Company.

The dividends declared and paid by Hayan Group for the FY Under Review are as follows:

	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Hayan Prints	5,580	6,000	-

Subsequent to the FY Under Review and up to the LPD, there was no dividend declared or payable by our Group.

8.7 ORDER BOOK

We do not have any long-term contracts with our customers as our sales are made based on purchase orders. Our sales process entails planning and discussions with prospective customers to analyse their inquiries and requirements on their packaging. We actively and continuously market our services in order to penetrate new markets and secure customers.

Due to the nature of our business, an order book is not applicable to us. Our revenue is recognised upon the delivery to and acceptance of our products by our customers.

Although we receive the production plans from our major customer, they do not form part of an order book as the production plans are not a commitment to purchase paper-based packaging from us. The production plans are intended to assist us in planning ahead and managing the inventories for raw materials.

8.8 REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MOORE

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Date: 01 DEC 2020

The Board of Directors
HPP Holdings Berhad
22A, Jalan TTC 28
Taman Teknologi Cheng
75250 Melaka

HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Dear Sirs,

We have completed our assurance engagement to report on the compilation of the pro forma consolidated statement of financial position of HPP Holdings and its subsidiaries as at 31 May 2020.

The pro forma consolidated statement of financial position has been compiled based on the applicable criteria by the Directors in accordance with the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines"). The applicable criteria are described in the notes as set out in basis of preparation of the pro forma consolidated statement of financial position.

The pro forma consolidated statement of financial position has been compiled by management to illustrate the impact of the Initial Public Offering ("IPO") Reorganisation (as defined in Note 2), the Public Issue of HPP Holdings (as defined in Note 3) and use of proceeds from the Public Issue as set out in the accompanying notes on the Group's financial position as at 31 May 2020. As part of this process, information about the Group's financial position has been extracted from the financial statements of the entities of HPP Holdings group of companies for the year ended 31 May 2020, on which the audit reports had been published. Because of its nature, the pro forma consolidated statement of financial position does not represent the Group's actual financial position, financial performance and cash flows.

Directors' Responsibility for the Pro Forma Consolidated Statement of Financial Position

The Directors of the Company are responsible for compiling the pro forma consolidated statement of financial position on the basis of the applicable criteria in accordance with the Prospectus Guidelines.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence, and due care, confidentiality and professional behaviours.

The firm applies the International Standard on Quality Control 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.

An independent member firm of Moore Global Network Limited.
Member firms in principal cities throughout the world.

MOORE

HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the pro forma consolidated statement of financial position has been compiled, in all material respects, by management on the basis of the applicable criteria.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements on the Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board. This standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the pro forma consolidated statement of financial position on the basis of the applicable criteria.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma consolidated statement 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 statement of financial position.

The purpose of pro forma consolidated statement of financial position included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction as at 31 May 2020 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma consolidated statement of financial position has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma consolidated statement of financial position provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma consolidated statement of financial position reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Company, the event or transaction in respect of which the pro forma consolidated statement of financial position has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma consolidated statement of financial position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MOORE

HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

Opinion

In our opinion, the pro forma consolidated statement of financial position has been compiled, in all material respects by management on the basis of the applicable criteria in accordance with the Prospectus Guidelines and the pro forma consolidated statement of financial position has been properly compiled on the basis stated.

Yours faithfully,

MOORE STEPHENS ASSOCIATES PLT
201304000972 (LLP0000963-LCA)
Chartered Accountants (AF002096)

CHUAH SOO HUAT
03002/07/2022 J
Chartered Accountant

Petaling Jaya, Selangor
Date: 01 DEC 2020

HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Pro Forma Consolidated Statement of Financial Position as at 31 May 2020

The pro forma consolidated statement of financial position of HPP Holdings as at 31 May 2020 has been prepared for illustrative purposes only and after making such adjustments as considered necessary on the assumption that the listing was completed on that date.

	Note	HPP Audited 31 May 2020 RM	Pro Forma I After IPO Reorganisation RM	Pro Forma II After Pro Forma I and Public Issue RM	Pro Forma III After Pro Forma II and Use of Proceeds RM
ASSETS					
NON-CURRENT ASSET					
Property, plant and equipment	6.2	-	53,386,312	53,386,312	66,417,312
CURRENT ASSETS					
Inventories		-	8,976,806	8,976,806	8,976,806
Trade receivables		-	17,023,797	17,023,797	17,023,797
Other receivables		-	522,570	522,570	522,570
Fixed deposits with licensed banks		-	11,032,975	11,032,975	11,032,975
Cash and bank balances	6.3	52,002	13,973,641	45,894,481	23,057,178
Tax recoverable		-	746,786	746,786	746,786
		52,002	52,276,575	84,197,415	61,360,112
TOTAL ASSETS		52,002	105,662,887	137,583,727	127,777,424

HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

Pro Forma Consolidated Statement of Financial Position as at 31 May 2020 (cont'd)

	Note	HPP Audited 31 May 2020 RM	Pro Forma I After IPO Reorganisation RM	Pro Forma II After Pro Forma I and Public Issue RM	Pro Forma III After Pro Forma II and Use of Proceeds RM
EQUITY AND LIABILITIES					
EQUITY					
Share capital	6.4	202	59,952,202	91,873,042	90,642,881
(Accumulated losses)/ Retained earnings	6.5	(119,545)	61,888,274	61,888,274	61,095,132
Merger deficit	6.6	-	(54,452,000)	(54,452,000)	(54,452,000)
		(119,343)	67,388,476	99,309,316	97,286,013
Non-controlling interests		-	1,925,700	1,925,700	1,925,700
TOTAL EQUITY		(119,343)	69,314,176	101,235,016	99,211,713
LIABILITIES					
NON-CURRENT LIABILITIES					
Borrowings	6.7	-	17,683,530	17,683,530	14,310,891
Deferred tax liabilities		-	5,499,416	5,499,416	5,499,416
		-	23,182,946	23,182,946	19,810,307
CURRENT LIABILITIES					
Borrowings	6.7	-	4,410,361	4,410,361	-
Lease liability		-	192,186	192,186	192,186
Trade payables		-	6,659,270	6,659,270	6,659,270
Other payables		160,345	1,892,948	1,892,948	1,892,948
Amount due to a Director		11,000	11,000	11,000	11,000
		171,345	13,165,765	13,165,765	8,755,404
TOTAL LIABILITIES		171,345	36,348,711	36,348,711	28,565,711
TOTAL EQUITY AND LIABILITIES		52,002	105,662,887	137,583,727	127,777,424

**HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
NOTES TO THE PRO FORMA CONSOLIDATED
STATEMENT OF FINANCIAL POSITION (CONT'D)**

1. Introduction

The pro forma consolidated statement of financial position as at 31 May 2020, for which the Management of HPP Holdings is solely responsible, has been prepared for illustration purposes only, for inclusion in the Prospectus in connection with the listing of and quotation for the entire enlarged issued share capital of HPP Holdings on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing").

2.0 IPO Reorganisation

2.1 Acquisitions

As part of the IPO Reorganisation, HPP Holdings had on 11 November 2019 entered into 2 conditional share sale agreements ("SSA") to acquire the entire issued share capital of Hayan Prints (M) Sdn. Bhd. ("Hayan Prints") and Hayan Packaging Sdn Bhd ("Hayan Packaging") respectively ("Acquisitions") as detailed below:

Company	Consideration	
	Number of shares issued	**RM**
Hayan Prints	269,755,000	53,951,000
Hayan Packaging	30,005,000	6,001,000
Total	299,760,000	59,952,000

The total purchase consideration for the Acquisitions were satisfied in full by the allotment and issuance of 299,760,000 ordinary shares in HPP Holdings ("HPP Holdings Shares" or "Shares") at an issue price of RM0.20 per share. The Acquisitions were completed on 30 November 2020.

The effect of IPO Reorganisation has been incorporated into Pro Forma I.

**HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
NOTES TO THE PRO FORMA CONSOLIDATED
STATEMENT OF FINANCIAL POSITION (CONT'D)**

3.0 IPO

In conjunction with, and as an integral part of the Listing, HPP Holdings intends to undertake the following:

3.1 Public Issue

Public issue of 88,669,000 new HPP Holdings Shares ("Issue Shares") ("Public Issue"), representing approximately 22.83% of the enlarged issued share capital, is payable in full at an issue price of RM0.36 per Share and shall be allocated in the following manner.

(i) Malaysian public

19,421,600 Issue Shares representing approximately 5.00% of the enlarged issued share capital of HPP Holdings) will be made available for application by the Malaysian Public by way of balloting process.

(ii) Eligible parties

30,000,000 Issue Shares, representing approximately 7.73% of the enlarged issued share capital of HPP Holdings, will be reserved for application by the eligible Directors, employees and other business associates, who have contributed to the success of the Group under the pink form allocations.

(iii) Private placement to selected investors and Bumiputera investors

39,247,400 Issue Shares, representing approximately 10.10% of the enlarged issued share capital of HPP Holdings will be made available by way of private placement to selected identified investors and Bumiputera investors.

3.2 Offer for Sale

Offer for sale of 20,000,000 existing HPP Holdings Shares ("Offer Shares"), representing approximately 5.15% of the enlarged issued share capital of HPP Holdings, at RM0.36 per Offer Share to be offered by the selling shareholders to selected Bumiputera investors approved by the Ministry of International Trade and Industry by way of private placement.

The basis of allocation for the Issue Shares and Offer Shares (collectively "IPO Shares") shall take into account the desirability of distributing the IPO Shares to a reasonable number of applicants in view of broadening the shareholding base to meet the public spread requirements as per the ACE Market Listing Requirements of Bursa Securities and to establish a liquid and adequate market for the IPO Shares.

There is no over-allotment or 'greenshoe' option that will result in an increase in the amount of the IPO Shares.

4.0 Listing

Subsequent to the above, HPP Holdings shall undertake the listing of and quotation for the entire enlarged issued share capital of HPP Holdings of RM91,873,041.60 comprising 388,430,000 Shares on the ACE Market of Bursa Securities.

HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
NOTES TO THE PRO FORMA CONSOLIDATED
STATEMENT OF FINANCIAL POSITION (CONT'D)

5.0 Basis of Preparation

5.1 The pro forma consolidated statement of financial position of HPP Holdings is prepared for illustrative purposes only and has been prepared using the bases and accounting policies consistent with those adopted by the Group, after giving effect to the adjustments considered appropriate.

The pro forma consolidated statement of financial position has been prepared for illustrative purposes based on the audited financial statements for financial year ended 31 May 2020. The audited financial statements used in the preparation of this report were not subject to any modification on the respective audit reports.

5.2 The pro forma consolidated statement of financial position comprises the audited statements of financial position of the respective companies as at 31 May 2020, adjusted for the effects of the IPO Reorganisation, IPO and use of proceeds from the IPO.

5.3 The pro forma consolidated statement of financial position has been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs") and is presented on a basis consistent with both the format and accounting policies normally adopted by the Group and after taking into account the adjustments appropriate for the purposes of the pro forma consolidated statement of financial position as set out in the accompanying notes.

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HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
NOTES TO THE PRO FORMA CONSOLIDATED
STATEMENT OF FINANCIAL POSITION (CONT'D)

6. Pro Forma Adjustments to the Pro Forma Consolidated Statement of Financial Position

6.1 Pro Forma Adjustments to the Pro Forma Consolidated Statement of Financial Position

6.1.1 Pro Forma I

Pro Forma I incorporates the effects of the acquisitions of Hayan Prints and Hayan Packaging by HPP Holdings as disclosed in Note 2.1.

6.1.2 Pro Forma II

Pro Forma II incorporates the effects of Pro Forma I and the Public Issue.

Upon completion of the Public Issue, the issued share capital of HPP Holdings will increase from RM59,952,201.60 comprising 299,761,000 HPP Holdings Shares to RM91,873,041.60 comprising 388,430,000 HPP Holdings Shares.

6.1.3 Pro Forma III

Pro Forma III incorporates the effect of Pro Forma I, Pro Forma II and after the Listing and use of proceeds from the Public Issue.

The gross proceeds arising from the Public Issue will be utilised by the Group in the following manner:

	RM	%
Capital expenditures	13,031,000	40.82%
Repayment of bank borrowings	7,783,000	24.38%
Working capital	5,206,840	16.31%
Sales and marketing expenses	2,000,000	6.27%
Estimated listing expenses	3,900,000	12.22%
Total proceeds	31,920,840	100.00%

HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
NOTES TO THE PRO FORMA CONSOLIDATED
STATEMENT OF FINANCIAL POSITION (CONT'D)

6. Pro Forma Adjustments to the Pro Forma Consolidated Statement of Financial Position (cont'd)

6.1 Pro Forma Adjustments to the Pro Forma Consolidated Statement of Financial Position (cont'd)

6.1.3 Pro Forma III

Estimated listing expenses comprises the following:

	RM
Estimated listing expenses	3,900,000
Less: Amount paid and expensed off	(1,876,697)
	2,023,303
Balance of estimated listing expenses to be taken to:	
- Profit or loss	793,142
- Share capital	1,230,161
	2,023,303

6.2 Property, plant and equipment

		RM
As at 31 May 2020		-
Pro Forma I	After IPO Reorganisation	53,386,312
After Pro Forma I and II		53,386,312
Pro Forma III	After use of proceeds	13,031,000
After Pro Forma I, II and III		66,417,312

HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
NOTES TO THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

6. Pro Forma Adjustments to the Pro Forma Consolidated Statement of Financial Position (cont'd)

6.3 Cash and bank balances

		RM
As at 31 May 2020		52,002
Pro Forma I	After IPO Reorganisation	13,921,639
After Pro Forma I		13,973,641
Pro Forma II	After Public Issue	31,920,840
After Pro Forma II		45,894,481
Pro Forma III	After use of proceeds	
	- Repayment of borrowings	(7,783,000)
	- Estimated listing expenses	(2,023,303)
	- Capital expenditures	(13,031,000)
After Pro Forma III*		23,057,178

* Included in the cash and bank balances after Pro Forma III are RM2.0 million and RM5.2 million of sales and marketing expenses and working capital respectively pending utilisation.

6.4 Share capital

		RM
As at 31 May 2020		202
Pro Forma I	After IPO Reorganisation	59,952,000
After Pro Forma I		59,952,202
Pro Forma II	After Public Issue	31,920,840
After Pro Forma II		91,873,042
Pro Forma III	After use of proceeds	(1,230,161)
After Pro Forma III		90,642,881

HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
NOTES TO THE PRO FORMA CONSOLIDATED
STATEMENT OF FINANCIAL POSITION (CONT'D)

6. Pro Forma Adjustments to the Pro Forma Consolidated Statement of Financial Position (cont'd)

6.5 (Accumulated losses)/Retained earnings

		RM
As at 31 May 2020		(119,545)
Pro Forma I	After IPO Reorganisation	62,007,819
After Pro Forma I and II		61,888,274
Pro Forma III	After use of proceeds	(793,142)
After Pro Forma III		61,095,132

6.6 Merger deficit

		RM
As at 31 May 2020		-
Pro Forma I	After IPO Reorganisation - arising from retained earnings	(54,452,000)
After Pro Forma I, II and III		(54,452,000)

In conjunction with the Listing, the acquisitions as disclosed in Note 2.1 were accounted for under the merger method whereby the difference between the acquisition cost and the nominal value of the share capital of the subsidiary is taken to the merger deficit.

6.7 Borrowings

		Current Liabilities RM	Non Current Liabilities RM	Total Liabilities RM
As at 31 May 2020		-	-	-
Pro Forma I	After IPO Reorganisation	4,410,361	17,683,530	22,093,891
After Pro Forma I and II		4,410,361	17,683,530	22,093,891
Pro Forma III	After use of proceeds	(4,410,361)	(3,372,639)	(7,783,000)
After Pro Forma III		-	14,310,891	14,310,891

HPP HOLDINGS BERHAD ("HPP HOLDINGS" OR "COMPANY")
NOTES TO THE PRO FORMA CONSOLIDATED
STATEMENT OF FINANCIAL POSITION (CONT'D)

Approved and adopted on behalf of the Board of Directors of HPP Holdings in accordance with a resolution dated 01 DEC 2020

KOK HON SENG

LAU TEE TEE @ LAU KIM WAH

MOORE

Moore Stephens Associates PLT (LLP0000963 LCA)

Chartered Accountants (AF002096)
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Date: 01 DEC 2020

The Board of Directors
HPP Holdings Berhad
22A, Jalan TTC 28
Taman Teknologi Cheng
75250 Melaka

Dear Sirs,

1.0 ACCOUNTANTS' REPORT COMBINED FINANCIAL STATEMENTS OF HPP HOLDINGS BERHAD

1.1 Purpose of The Accountants' Report

The Accountants' Report has been prepared in connection with the proposed initial public offering and listing and quotation of the Company's shares on the ACE Market of Bursa Malaysia Securities Berhad and for no other purpose.

The combined financial statements have been prepared on the assumption that HPP Holdings Berhad ("HPP Holdings" or "Company") and its subsidiaries ("Hayan Group" or "Group") have operated as a single economic entity throughout the financial years ended 31 May 2018, 31 May 2019 and 31 May 2020.

1.2 Report on The Financial Statements

The combined financial statements of HPP Holdings for the financial years ended 31 May 2018, 31 May 2019 and 31 May 2020 have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs") issued by the Malaysian Accounting Standards Board ("MASB") and International Financial Reporting Standards ("IFRSs") and the Guidance Note on "Combined Financial Statements" issued by the Malaysia Institute of Accountants on 28 November 2018. These combined financial statements incorporate the financial information included in the audited financial statements of the entities constituting HPP Holdings for the respective financial years, restated where applicable to comply with the requirements of MFRSs and IFRSs.

Opinion

We have audited the combined financial statements of HPP Holdings which comprises combined statements of financial position as at 31 May 2018, 31 May 2019 and 31 May 2020, combined statements of comprehensive income, combined statement of changes in equity and combined statements of cash flow for each of the financial years ended 31 May 2018, 31 May 2019 and 31 May 2020, and a summary of significant accounting policies and other explanatory notes as set out in pages 6 to 71.

In our opinion, the accompanying combined financial statements give a true and fair view of the financial position of the Group as at 31 May 2018, 31 May 2019 and 31 May 2020 and of its financial performance and its cash flows for each of the financial years ended 31 May 2018, 31 May 2019 and 31 May 2020 in accordance with the MFRSs, IFRSs and paragraph 10.05 of Chapter 10, Part II Division I: Equity of the Prospectus Guidelines as issued by the Securities Commission ("SC").

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Member firms in principal cities throughout the world.

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1.0 ACCOUNTANTS' REPORT
COMBINED FINANCIAL STATEMENTS OF HPP HOLDINGS BERHAD (cont'd)

1.2 Report on The Financial Statements (cont'd)

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 Accountant's Responsibilities for the Audit of the Combined Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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' Code of Ethics for Professional body ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and IESBA Code.

Directors' Responsibility for the Combined Financial Statements

The Directors of the Group are responsible for the preparation of the combined financial statements of the Group that give a true and fair view in accordance with MFRSs and IFRSs. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of combined financial statements of the Group that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statementsof 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.

Reporting Accountant's Responsibility for the Audit of Combined Financial Statements

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

MOORE

1.0 ACCOUNTANTS' REPORT COMBINED FINANCIAL STATEMENTS OF HPP HOLDINGS BERHAD (cont'd)

1.2 Report on The Financial Statements (cont'd)

Reporting Accountant's Responsibility for the Audit of Combined Financial Statements (cont'd)

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

(a) Identify and assess the risks of material misstatement of the 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.

(b) 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.

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

(d) 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

(e) Evaluate the overall presentation, structure and content of the financial statements of the Group, including the disclosures, and whether the financial statements of the Group represent the underlying transactions and events in a manner that achieves fair presentation.

(f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

MOORE

1.0 ACCOUNTANTS' REPORT
COMBINED FINANCIAL STATEMENTS OF HPP HOLDINGS BERHAD (cont'd)

1.2 Report on The Financial Statements (cont'd)

Reporting Accountant's Responsibility for the Audit of Combined Financial Statements (cont'd)

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 Reporting Responsibility

In accordance with paragraph 10.05 of Chapter 10, Part II Division 1: Equity of the Prospectus Guidelines as issued by the SC, save for the completion of Acquisitions (as defined below), no significant subsequent events have come to our attention since 31 May 2020, the reporting date of the most recent audited combined financial statements to the date of this report, that would require a material disclosure or adjustment to be made to the combined financial statements.

Other Matters

(i) This report is made solely to the Group, as a body, in connection with the proposed initial public offering and listing and quotation of the Company's shares on the ACE Market of Bursa Malaysia Securities Berhad and for no other purpose.

(ii) The combined financial statements have been prepared on the assumption that HPP Holdings has operated as a single economic entity throughout the financial years ended 31 May 2018, 31 May 2019 and 31 May 2020. The financial information shown in the combined financial statements may not correspond to those in the consolidated financial statements of HPP Holdings had the relevant proposed transactions to legally constitute the Group been incorporated in the consolidated financial statements for the respective financial year. Such financial information in the combined financial statements does not purport to predict the financial position, results and cash flows of the Group for those financial years.

MOORE STEPHENS ASSOCIATES PLT
201304000972 (LLP0000963-LCA)
Chartered Accountants (AF002096)

CHUAH SOO HUAT
03002/07/2022 J
Chartered Accountant

Petaling Jaya, Selangor
Date: 01 DEC 2020

2.0 ABBREVATIONS

Unless the context otherwise requires, the following definitions shall apply throughout this report:

Abbreviation	Description
Act	the Companies Act 2016
Big Tree Realty	Big Tree Realty Sdn Bhd
Bursa Securities	Bursa Malaysia Securities Berhad
Envy Premium	Envy Premium Box Supplies Sdn Bhd
EPF	Employees Provident Fund
FYE 2018	Financial year ended 31 May 2018
FYE 2019	Financial year ended 31 May 2019
FYE 2020	Financial year ended 31 May 2020
Hayan Group or Group	HPP Holdings and its subsidiaries
Hayan Packaging	Hayan Packaging Sdn Bhd
Hayan Prints	Hayan Prints (M) Sdn Bhd
HPP Holdings or the Company	HPP Holdings Berhad
HPP Holding Shares or Shares	Ordinary shares in HPP Holdings
IFRSs	International Financial Reporting Standards
IPO	Initial public offering
IPO Shares	Collectively, the Offer Shares and Issue Shares
Issue Shares	New shares to be issued pursuant to the public issue
Listing	Listing of and quotation for the entire enlarged issued share capital of HPP Holdings on the ACE Market of Bursa Securities
LPD	Last Practicable Date
MASB	Malaysian Accounting Standards Board
MFRSs	Malaysian Financial Reporting Standards
MS	Moore Stephens Associates PLT
NA	Net Assets
NTA	Net Tangible Assets
Offer Shares	Offer for Sale of HPP Shares to selected investors
Relevant Financial Periods	FYE 2018, FYE 2019 and FYE 2020
RM and sen	Ringgit Malaysia and sen, the lawful currency of Malaysia
SC	Securities Commission Malaysia

3.0 BACKGROUND INFORMATION

3.1 HPP HOLDINGS

3.1.1 Corporate Information

HPP Holdings Sdn Bhd was incorporated as a private limited liability company in Malaysia on 29 November 2018 in accordance with the Companies Act 2016. The Company was converted to a public limited liability company on 15 November 2019 and changed its name to HPP Holdings Berhad on the same date.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are disclosed in Note 4.4.

3.1.2 Share Capital

The Company was incorporated with issued and fully paid up share capital consisting of 2 ordinary shares as subscribers' shares amounting to RM2 at RM1 per share. On 17 December 2018, the Company increased its issued share capital from RM2 to RM202 by issuance of 998 ordinary shares at RM0.20 per share for working capital purposes. On 17 November 2020, the Company issued 299,760,000 ordinary shares at RM0.20 per share as consideration for the Acquisitions (as defined below). As at the date of this report, the Company's issued share capital is RM59,952,201.60 which consist of 299,761,000 ordinary shares.

4.0 IPO REORGANISATION AND LISTING SCHEME

In conjunction with and as an integral part of the Listing of HPP Holdings on the ACE Market of Bursa Securities, HPP Holdings will undertake the following transactions:

4.1 IPO Reorganisation

Acquisitions

As part of the IPO Reorganisation, HPP Holdings had on 11 November 2019 entered into 2 conditional share sale agreements to acquire the entire issued share capital of Hayan Prints and Hayan Packaging respectively as detailed below:

Company	Consideration	
	Number of shares issued	RM
Hayan Prints	269,755,000	53,951,000
Hayan Packaging	30,005,000	6,001,000
Total	299,760,000	59,952,000

The total consideration for the Acquisitions were satisfied in full by the allotment and issuance of 299,760,000 ordinary shares in HPP Holdings at an issue price of RM0.20 per share. The Acquisitions were completed on 30 November 2020.

4.0 IPO REORGANISATION AND LISTING SCHEME (cont'd)

4.2 IPO

In conjunction with, and as an integral part of the Listing, HPP Holdings intends to undertake the following:

4.2.1 Public Issue

Public issue of 88,669,000 ordinary shares in HPP Holdings representing approximately 22.83% of the enlarged issued share capital, is payable in full at an issue price of RM0.36 per share and shall be allocated in the following manner, subject to clawback and reallocation.

(i) Malaysian public

19,421,600 Issue Shares representing approximately 5.00% of the enlarged issued share capital of HPP Holdings will be made available for application by the Malaysian Public by way of balloting process.

(ii) Eligible parties

30,000,000 Issue Shares, representing approximately 7.73% of the enlarged issued share capital of HPP Holdings will be reserved for application by the eligible Directors, employees and other business associates, who have contributed to the success of the Group under the Pink Form Allocations.

(iii) Private placement to selected investors and Bumiputera investors

39,247,400 Issue Shares, representing approximately 10.10% of the enlarged issued share capital of HPP Holdings will be made available by way of private placement to selected identified investors and Bumiputera investors.

4.2.2 Offer for Sale

Offer for sale of 20,000,000 Offer Shares, representing approximately 5.15% of the enlarged issued share capital of HPP Holdings, at RM0.36 per Offer Share to be offered by the selling shareholders to selected Bumiputera investors approved by The Ministry of International Trade and Industry by way of private placement.

4.0 IPO REORGANISATION AND LISTING SCHEME (cont'd)

4.2 IPO (cont'd)

4.2.3 Listing

Subsequent to the completion of the Public Issue, HPP Holdings shall undertake the Listing involving the listing of and quotation for its entire enlarged issued share capital comprising 388,430,000 shares on the ACE Market of Bursa Securities.

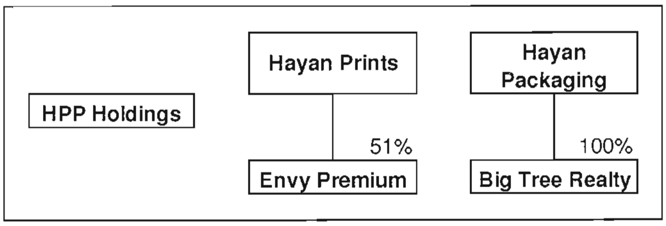
The basis of allocation for the Issue Shares and Offer Shares (collectively "IPO Shares") shall take into account the desirability of distributing the IPO Shares to a reasonable number of applicants in view of broadening the shareholding base to meet the public spread requirements as per the ACE Market Listing Requirements of Bursa Securities and to establish a liquid and adequate market for the IPO Shares.

There is no over-allotment or 'greenshoe' option that will result in an increase in the amount of the IPO Shares.

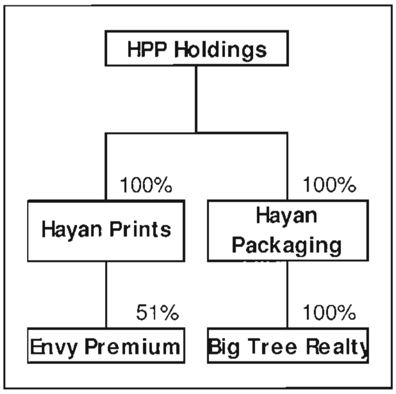
4.3 Group Structure

As disclosed in Note 4.1, the Acquisitions were completed on 30 November 2020. Accordingly, the existing corporate structure prior to the Acquisitions and corporate structure after the Acquisitions is illustrated below:

Group structure prior to the Acquisitions



Group structure after the Acquisitions



4.0 IPO REORGANISATION AND LISTING SCHEME (cont'd)

4.4 Details of the subsidiaries included under the Acquisitions

Name of Company	Country of incorporation	Issued and Paid Up Share Capital RM	Principal activities
Hayan Prints	Malaysia	3,000,000	Printing and production of paper-based packaging, both corrugated and non-corrugated
Hayan Packaging	Malaysia	2,500,000	Sales and marketing of paper-based packaging, both corrugated and non-corrugated
Big Tree Realty	Malaysia	100,000	Investment holding
Envy Premium	Malaysia	1,898,783	Trading and production of rigid boxes

5.0 RELEVANT FINANCIAL PERIODS

The relevant financial periods of the audited financial statements presented for the purposes of this report are FYE 2018, FYE 2019 and FYE 2020.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

This Report is prepared on a basis consistent with accounting policies adopted by Hayan Group as further detailed in the following sub-sections of this Report.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.1 Basis of Preparation

The Accountant's Report is prepared based on the combined financial statements of HPP Holdings for the financial years ended 31 May 2018, 31 May 2019 and 31 May 2020.

These combined financial statements have been prepared on the historical cost basis, except for those financial instruments which have been measured at their fair values.

These combined financial statements are presented in RM.

6.2 Significant Changes in Accounting Policies

(a) Statement of compliance

The combined financial statements of HPP Holdings for the financial years ended 31 May 2018, 31 May 2019 and 31 May 2020 have been prepared in accordance with the MFRSs issued by the MASB, IFRS and the Guidance Note on "Combined Financial Statements" issued by the Malaysian Institute of Accountants on 28 November 2018. These combined financial statements incorporate the financial information included in the audited financial statements of the entities constituting the HPP Holdings group of companies for the respective financial years, restated where applicable to comply with the requirements of MFRSs and IFRSs.

The combined financial statements have been prepared on the assumption that HPP Holdings, and its subsidiaries including the effect of acquisition of Envy Premium as at 30 November 2018 as disclosed in Note 7.5.24, have operated as a single economic entity throughout the financial years ended 31 May 2018, 31 May 2019 and 31 May 2020.

The financial information shown in the combined financial statements may not correspond to those in the consolidated financial statements of HPP Holdings had the relevant proposed transactions to legally constitute the 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 cash flow of the Group for those financial years.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.2 Significant Changes in Accounting Policies (cont'd)

(a) Statement of compliance (cont'd)

The Group has also considered the new accounting pronouncements in the preparation of the combined financial statements.

(i) Accounting pronouncements that are effective and adopted during the financial year

MFRS 16	Leases
Amendments to MFRS 9	Prepayment Features with Negative Compensation
Amendments to MFRS 119	Plan Amendment, Curtailment or Settlement
Amendments to MFRS 128	Long-term Interests in Associates and Joint Ventures
IC Interpretation 23	Uncertainty over Income Tax Treatments
Annual Improvements to MFRSs 2015 - 2017 Cycle	

The adoption of the above accounting pronouncements did not have any significant effect on the combined financial statements of the Group except for the adoption of MFRS 16 "Leases".

<u>MFRS 16 "Leases"</u>

MFRS 16 replaces the guidance in MFRS 117 "Leases", IC Interpretation 4 "Determining whether an Arrangement contains a Lease", IC Interpretation 115 "Operating Leases – Incentives" and IC Interpretation 127 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees.

For lessee, MFRS 16 requires the recognition of a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. ROU asset is depreciated throughout the lease period in accordance with the depreciation requirements of MFRS 116 "Property, Plant and Equipment" whereas lease liability is accreted to reflect interest and is reduced to reflect lease payments made. Leases that were classified as finance leases under MFRS 117, the carrying amount of the ROU asset and lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before the date of initial application.

For lessors, MFRS 16 retains most of the requirements in MFRS 117. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The modified retrospective transition approach measures the lease liabilities based on the present value of future lease payments calculated using incremental borrowing rate at date of transition. Lease payments would be split into principal and interest payments, using the effective interest method. The modified retrospective approach requires the impact of the adoption to be included in the opening retained earnings on 1 June 2019. As such, comparative information was not restated and continues to be reported under MFRS 117 and related interpretations.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.2 Significant Changes in Accounting Policies (cont'd)

(a) Statement of compliance (cont'd)

(i) Accounting pronouncements that are effective and adopted during the financial year (cont'd)

MFRS 16 "Leases" (cont'd)

The Group has applied the following practical expedients under MFRS 16:

- No adjustments are made on transition for leases for which the underlying assets are of low value;
- The Group does not apply the standard to leases which lease terms end within 12 months from 1 June 2019; and
- Applying a single discount rate range from 6.00% a portfolio of leases with reasonably similar characteristic.

The adoption of MFRS 16 required the Group to make judgement on the discount rates used on transition to discount future lease payments (i.e. the Group's incremental borrowing rates). These rates have been calculated to reflect the underlying lease terms and observable inputs. The risk-free rate component has been based on Base Lending rate over the same term as the lease and has been adjusted for credit risk.

The following table explains the difference between operating lease commitments disclosed applying MFRS 117 as at 31 May 2019, and lease liability recognised in the combined statements of financial position as at 1 June 2019:

	Total RM
Operating lease commitments as at 31 May 2019	414,000
Remeasurement of commitment tenure	(7,000)
Effects from discounting at the incremental borrowing rate of 6.00%	(23,448)
Lease liability recognised as at 1 June 2019	383,552

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.2 Significant Changes in Accounting Policies (cont'd)

(a) Statement of compliance (cont'd)

(i) Accounting pronouncements that are effective and adopted during the financial year (cont'd)

MFRS 16 "Leases" (cont'd)

The effect arising from initial application of MFRS 16 on the combined statements of financial position of the Group as at 1 June 2019 as per below:

	Total RM	Effect on adoption of MFRS 16 RM	Restated RM
Non-current asset			
Net carrying amount of property, plant and equipment	1,264,798	383,552	1,648,350
Non-current liability			
Lease liability	-	200,114	200,114
Current liability			
Lease liability	-	183,438	183,438
	-	383,552	383,552

(ii) Accounting pronouncements that are issued but not yet effective and have not been early adopted

The Group has not adopted the following accounting pronouncements that have been issued as at the date of authorisation of these combined financial statements but are not yet effective for the Group:

Effective for financial periods beginning on or after 1 January 2020

Amendments to MFRS 3	Definition of a Business
Amendments to MFRS 9 and MFRS 7	Interest Rate Benchmark Reform
Amendments to MFRS 101 and MFRS 108	Definition of Material

Amendments to References to the Conceptual Framework in MFRSs

Effective for financial periods beginning on or after 1 June 2020

Amendments to MFRS 16	Covid-19 Related Rent Concessions

Effective for financial periods beginning on or after 1 January 2022

Amendments to MFRS 3	Reference to the Conceptual Framework
Amendments to MFRS 116	Property, Plant and Equipment - Proceeds before Intended Use
Amendments to MFRS 137	Onerous Contracts - Cost of Fulfilling a Contract

Annual Improvements to MFRSs 2018 – 2020

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.2 Significant Changes in Accounting Policies (cont'd)

(a) Statement of compliance (cont'd)

(ii) Accounting pronouncements that are issued but not yet effective and have not been early adopted (cont'd)

Effective for financial periods beginning on or after 1 January 2023

Amendments to MFRS 4	Insurance Contracts (Extension of the Temporary Exemption from Applying MFRS 9)
MFRS 17	Insurance Contracts
Amendments to MFRS 17	Insurance Contracts
Amendments to MFRS 101	Classification of Liabilities as Current or Non-Current

Effective date to be announced

Amendments to MFRS 10 and and MFRS 128	Sale of Contribution of Assets between an Investor and its Associate or Joint Venture

The Group will adopt the above accounting pronouncements when they become effective in the respective financial periods. These accounting pronouncements are not expected to have any effect to the combined financial statements of the Group upon their initial application.

(b) Functional and presentation currency

The combined financial statements are presented in Ringgit Malaysia ("RM"), which is the Group's functional currency.

(c) Basis of measurement

The combined financial statements have been prepared on the historical cost convention except for those as disclosed in the accounting policy notes.

(d) Significant accounting estimates and judgements

The summary of accounting policies as described in Note 6.3 are essential to understand the Group's results of operations, financial position, cash flows and other disclosures. Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgements and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. Directors exercise their judgement in the process of applying the Group's accounting policies.

Estimates, assumptions concerning the future and judgements are made in the preparation of the combined financial statements. They affect the application of the Group's accounting policies and reported amounts of assets, liabilities, income and expenses, and disclosures made. Estimates and underlying assumptions are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.2 Significant Changes in Accounting Policies (cont'd)

(d) Significant accounting estimates and judgements (cont'd)

The key assumptions concerning the future and other key sources of estimation or uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

(i) Impairment of financial assets and receivables

The Group assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applied the simplified approach permitted by MFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the trade receivables.

(ii) Write-down of inventories

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews required judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories.

(iii) Impairment of non-financial assets

When the recoverable amount of an asset is determined based on the estimate of the value-in-use of the cash generating unit to which the asset is allocated, the management is required to make an estimate of the expected future cash flows from the cash-generating unit and also to apply a suitable discount rate in order to determine the present value of those cash flows.

6.3 Summary of significant accounting policies

(a) Basis of consolidation

(i) Subsidiary

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(a) Basis of consolidation (cont'd)

(ii) Consolidation

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

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Acquisition of subsidiaries are accounted for using the acquisition method except for business combinations arising from common control transfers. Business combinations involving entities under common control are accounted for by applying the pooling of interest method. The assets and liabilities of the combining entities are reflected at their carrying amounts reported in the consolidated financial statements of the controlling holding company. Any difference between the consideration paid and the share capital of the "acquired" entity is reflected within equity as merger reserve or merger deficit. Merger deficit is adjusted against suitable reserves of the entity acquired to the extent that laws or statutes do not prohibit the use of such reserves.

The statements of comprehensive income reflects the results of the combining entities for the full year, irrespective of when the combination takes place. Comparatives are presented as if the entities have always been combined since the date the entities had come under common control.

Under the acquisition method of accounting, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in other comprehensive income. The cost of a business combination is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the business combination.

Any excess of the cost of business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statement of financial position. The accounting policy for goodwill is set out in Note 6.3(s). Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition. When the Group acquires a business, embedded derivatives separated from the host contract by the acquiree are reassessed on acquisition unless the business combination results in a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(a) Basis of consolidation (cont'd)

(iii) Transactions with non-controlling interest

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

(iv) Transactions eliminated on consolidation

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

Unrealised gains arising from transactions with equity-accounted associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the investees. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

In preparing the combined financial statements of the Group, transactions in currencies other than the Group's functional currency (foreign currencies) are recorded in Ringgit Malaysia using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies at the reporting date are translated to the functional currencies at the exchange rates on the reporting date. Non-monetary items denominated in foreign currencies are not retranslated at the reporting date except for those that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

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

(c) Revenue and other income recognition

Revenue is recognised when or as a performance obligation in the contract with customer is satisfied, i.e. when the "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation is a promise to transfer a distinct goods or service (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer) to the customer that is explicitly stated in the contract and implied in the Group's customary business practices.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(c) Revenue and other income recognition (cont'd)

Revenue is measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customers, excluding amounts collected on behalf of third parties such as sales taxes and services taxes. If the amount of consideration varies due to discounts, rebates, refunds, credits, incentives, penalties or other similar items, the Group estimates the amount of consideration to which it will be entitled based on the expected value or the most likely outcome. If the contract with customer contains more than one performance obligation, the amount of consideration is allocated to each performance obligation based on the relative stand-alone selling prices of the goods or services promised in the contract.

The revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The control of the promised goods or services may be transferred over time or at a point in time. The control over the goods or services is transferred over time and revenue is recognised over time if:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

Revenue from sales of goods is recognised upon delivery of goods where the control of the goods has been passed to the customers, or performance of services, net of sales and services taxes and discounts.

Revenue for performance obligation that is not satisfied over time is recognised at the point in time at which the customer obtains control of the promised goods or services.

Other revenue earned by the Group are recognised on the following basis:

Interest income

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

Rental income

Rental income is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income over the term of the lease.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(d) Employee benefits

(i) Short term employee benefits

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

The expected cost of accumulating compensated absences is measured as additional amount expected to be paid as a result of the unused entitlement that has accumulated at the end of the reporting period.

(ii) Defined contribution plans

As required by law, companies in Malaysia make contributions to the state pension scheme, the EPF. Such contributions are recognised as an expense as incurred. Once the contributions have been paid, the Group has no further payment obligations.

(e) Borrowing costs

Borrowing costs of the Group include interest expense of other debt instruments calculated using the effective interest method. All borrowing costs are recognised as an expense when incurred.

(f) Income taxes

Current tax

Tax expense represents the aggregate amount of current and deferred tax. Current tax is the expected amount payable in respect of taxable income for the financial year, using tax rates enacted or substantively enacted by the reporting date, and any adjustments recognised for prior years' tax. When an item is recognised outside profit or loss, the related tax effect is recognised either in other comprehensive income or directly in equity.

Deferred tax

Deferred tax is recognised using the liability method, on all temporary differences between the tax base of assets and liabilities and their carrying amounts in the combined financial statements. Deferred tax is not recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction, which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to apply in the period in which the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are recognised only to the extent that there are sufficient taxable temporary differences relating to the same taxable entity and the same taxation authority to offset or when it is probable that future taxable profits will be available against which the assets can be utilised.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(f) Income taxes (cont'd)

Deferred tax (cont'd)

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised. 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 be available for the assets to be utilised.

Deferred tax assets relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transactions either in other comprehensive income or directly in equity and deferred tax arising from business combination is adjusted against goodwill on acquisition or the amount of any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the acquisition cost.

(g) Leases

FYE 2020

The Group recognises a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured 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 site on which it is located, less any lease incentives received.

The ROU asset is subsequently depreciated using the straight-line or systematic basis from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The estimated useful lives of the ROU assets are determined on the same basis as those of the property, plant and equipment.

The estimated useful lives of the ROU assets are determined on the same basis as those of property, plant and equipment except for the lease of premises as disclosed in Note 7.5.4 which are depreciated over the lease term period of 2 years.

If ROU assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in MFRS 116, a lessee may elect to apply that revaluation model to all of the ROU assets that relate to that class of property, plant and equipment.

The ROU assets are presented as part of property, plant and equipment in the combined statements of financial position.

In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

The lease liability is initially measured at the present value of future lease payments at the commencement date, discounted using the Group's incremental borrowing rates. Lease payments included in the measurement of the lease liability include fixed payments, any variable lease payments, amount expected to be payable under a residual value guarantee, and exercise price under an extension option that the Group is reasonably certain to exercise.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(g) Leases (cont'd)

FYE 2020 (cont'd)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in rate, or if the Group change its assessment of whether it will exercise an extension or termination option.

Lease payments associated with short term leases and leases of low value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with lease term of 12 months or less.

FYE 2019 and 2018

Finance Lease

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance lease. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and 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 made under finance leases are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the profit or loss. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Operating Lease

Leases, where the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases and, except for property interest held under operating lease, the leased assets are not recognised on the combined statements of financial position. Property interest held under an operating lease, which is held to earn rental income or for capital appreciation or both, is classified as investment property.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent rentals are charged to profit or loss in the reporting period in which they are incurred.

Leasehold land which is in substance is an operating lease is classified as prepaid lease payments and amortised on a straight-line basis over the lease period as disclosed in the notes to the combined financial statements.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(h) Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

(i) Recognition and measurement

Cost includes expenditures that are directly attributable to the acquisition of the assets and any other costs directly attributable to bringing the asset to working condition for its intended use, cost of replacing component parts of the assets, and the present value of the expected cost for the decommissioning of the assets after their use. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised in the profit or loss on straight line basis over its estimated useful lives of each component of an item of property, plant and equipment at the following annual rates:

Leasehold land and buildings	1.25% - 2.00%
Plant and machineries	10%
Motor vehicles	20%
Office equipment and others*	10% - 20%
Renovation	10%

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(h) Property, plant and equipment (cont'd)

(iii) Depreciation (cont'd)

* *Office equipment and others comprise of signboard, tools and equipment, computers, furniture and fittings and air conditioners.*

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

Building under construction is not ready to use in generating future economic benefits and therefore is not depreciated.

Fully depreciated property, plant and equipment are retained in the combined financial statements until they are no longer in use and no further charge for depreciation is made in respect of these property, plant and equipment.

(i) Capital work-in-progress

Capital work-in-progress is stated at cost less any accumulated impairment losses and includes borrowing cost incurred during the period of construction.

No depreciation is provided on capital work-in-progress and upon completion of construction, the cost will be transferred to property, plant and equipment or intangible assets.

(j) Inventories

Inventories are stated 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:

- cost of raw materials and packaging materials comprise cost of purchase and are stated on a first-in, first-out (FIFO) basis.
- cost of finished goods includes raw materials, labour and an appropriate proportion of production overheads and are stated on a standard cost basis.

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

(k) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and on hand and fixed deposits with licensed banks that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. For the purpose of the combined statements of cash flows, cash and cash equivalents are presented net of fixed deposits pledged, if any.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(l) Financial instruments

(i) Initial recognition and measurement

A financial asset or a financial liability is recognised in the combined statements of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

An embedded derivative is recognised separately from the host contract where the host contract is not a financial asset, and accounted for separately if, and only if, the derivative is not closely related to the economic characteristics and risks of the host contract and the host contract is not measured at fair value through profit or loss. The host contract, in the event an embedded derivative is recognised separately, is accounted for in accordance with policy applicable to the nature of the host contract.

(ii) Financial instrument categories and subsequent measurement

The Group categorises financial instruments as follows:

Financial assets

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change of the business model.

(a) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets where the effective interest rate is applied to the amortised cost.

All financial assets, except for those measure at fair value through profit or loss, are subject to impairment assessment.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(l) Financial instruments (cont'd)

(ii) Financial instrument categories and subsequent measurement (cont'd)

The Group categorises financial instruments as follows: (cont'd)

Financial liabilities

(a) Amortised cost

Other financial liabilities not categorised as fair value through profit or loss are subsequently measured at amortised cost using the effective interest method.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss. Any gains or losses on derecognition are also recognised in the profit or loss.

(iii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the combined statements of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and liability simultaneously.

(iv) 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.

A regular way purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting. Trade date accounting refers to:

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and
(b) 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.

(v) Derecognition

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire or control of the asset is not retained or substantially all of 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 equity is recognised in profit or loss.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(l) Financial instruments (cont'd)

(v) Derecognition (cont'd)

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 of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(m) Impairment

(i) Financial assets

The Group recognises loss allowances for expected credit losses ("ECL") on financial assets measured at amortised cost, contract assets and lease receivables. ECL are a probability-weighted estimate of credit losses.

Loss allowance of the Group is measured on either of the following bases:

(i) 12-months ECL - represents the ECL that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or

(ii) Lifetime ECL - represents the ECL that will result from all possible default events over the expected life of a financial instrument or contract asset

The impairment methodology applied depends on whether there has been a significant increase in credit risk.

<u>Simplified approach - trade receivables, lease receivables and contract assets</u>

The Group applies the simplified approach to provide ECL for all trade receivables, lease receivables and contract assets as permitted by MFRS 9. The simplified approach required expected lifetime losses to be recognised from initial recognition of the receivables. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where applicable.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(m) Impairment (cont'd)

(i) Financial assets (cont'd)

General approach - other financial instruments

The Group applies the general approach to provide for ECL on all other financial instruments and financial guarantee contracts, which requires the loss allowance to be measure at an amount equal to 12-months ECL at initial recognition.

At each reporting date, the Group assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECL. In assessing whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, 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, where available.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant in credit risk since intial recognition, loss allowance is measured at an amount equal to 12-months ECL.

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- The financial asset is more than 365 days past due from the date of invoice past due.

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

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(m) Impairment (cont'd)

(i) Financial assets (cont'd)

Credit Impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost is 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 the financial asset have occurred.

Evidence that a financial asset is credit impaired includes the observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event (e.g being more than 365 days from the date of invoice past due after observation period);
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower or a concession that the lender would not other consider (e.g the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise);
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for security because of financial difficulties.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or full) 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 sources 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 procedures for recovery of amounts due. Any recoveries made are recognised in profit or loss.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(m) Impairment (cont'd)

(ii) Non-financial assets

The carrying amounts of non-financial assets are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which such impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

The recoverable amount of an asset or cash-generating units is the greater of its value in use and its fair value less costs to sell. 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.

Except for goodwill, assets that were previously impaired are reviewed for possible reversal of the impairment at the end of each reporting period. Any subsequent increase in recoverable amount is recognised in the profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation reserve. Reversal of impairment loss is restricted by the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

An impairment loss recognised for goodwill is not reversed.

An impairment loss is recognised for the amount by which the carrying amount of the subsidiary exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and present value of the estimated future cash flows expected to be derived from the investment including the proceeds from its disposal. Any subsequent increase in recoverable amount is recognised in profit or loss.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(n) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of their liabilities. Ordinary shares are equity instruments.

Ordinary shares

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.

(o) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(p) Contingent liability

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the combined statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) 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 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.

6.0 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

6.3 Summary of significant accounting policies (cont'd)

(q) Fair value measurements (cont'd)

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value are 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.

(r) Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the chief operating decision maker, which in this case is the Board of Directors, to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

(s) Goodwill on consolidation

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

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

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

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

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD

7.1 Combined Statements of Comprehensive Income For the Financial Years Ended 31 May 2018, 31 May 2019 And 31 May 2020

	Note	2018 RM	2019 RM	2020 RM
Revenue	7.5.1	64,394,521	82,680,854	101,203,371
Cost of sales		(42,032,006)	(58,281,724)	(80,506,560)
Gross profit		22,362,515	24,399,130	20,696,811
Other income		1,077,279	1,254,064	1,367,675
Administrative expenses		(5,815,888)	(6,503,225)	(8,485,529)
Profit from operations		17,623,906	19,149,969	13,578,957
Finance costs		(714,337)	(997,663)	(1,145,507)
Profit before tax	7.5.2	16,909,569	18,152,306	12,433,450
Income tax expense	7.5.3	(1,977,237)	(4,484,218)	(3,617,754)
Profit for the financial year, representing total comprehensive income for the financial year		14,932,332	13,668,088	8,815,696
Total comprehensive income attributable to:				
Owners of the Group		14,932,332	13,336,148	8,233,231
Non-controlling interests	7.5.9	-	331,940	582,465
		14,932,332	13,668,088	8,815,696

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.2 Combined Statements of Financial Position As At 31 May 2018, 31 May 2019 And 31 May 2020

	Note	2018 RM	2019 RM	2020 RM
ASSETS				
Non-Current Asset				
Property, plant and equipment	7.5.4	38,356,783	45,736,429	53,386,312
Current Assets				
Inventories	7.5.5	7,271,495	8,692,081	8,976,806
Trade receivables	7.5.6	17,087,558	20,037,150	17,023,797
Other receivables	7.5.7	984,083	1,597,589	522,570
Fixed deposits with licensed banks	7.5.8	2,976,331	6,172,596	11,032,975
Cash and bank balances		12,459,156	14,141,938	13,973,641
Tax recoverable		529,717	-	746,786
		41,308,340	50,641,354	52,276,575
Total Assets		79,665,123	96,377,783	105,662,887
EQUITY AND LIABILITIES				
EQUITY				
Invested equity		51,818,895	59,155,245	67,388,476
Non-controlling interests	7.5.9	-	903,240	1,925,700
Total Equity		51,818,895	60,058,485	69,314,176
LIABILITIES				
Non-Current Liabilities				
Borrowings	7.5.10	14,025,548	16,220,305	17,683,530
Deferred tax liabilities	7.5.11	4,314,175	4,878,631	5,499,416
		18,339,723	21,098,936	23,182,946
Current Liabilities				
Borrowings	7.5.10	3,798,672	4,141,400	4,410,361
Lease liability	7.5.12	-	-	192,186
Trade payables	7.5.13	4,094,738	7,382,337	6,659,270
Other payables	7.5.14	1,613,095	2,780,850	1,892,948
Amounts due to Directors	7.5.15	-	364,088	11,000
Amounts due to shareholders	7.5.16	-	80,000	-
Tax payable		-	471,687	-
		9,506,505	15,220,362	13,165,765
Total Liabilities		27,846,228	36,319,298	36,348,711
Total Equity And Liabilities		79,665,123	96,377,783	105,662,887

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.3 Combined Statements of Changes in Equity For the Financial Years Ended 31 May 2018, 31 May 2019 And 31 May 2020

	Note	Invested Equity RM	Non-Controlling Interests RM	Total Equity RM
At 1 June 2017		42,466,563	-	42,466,563
Profit for the financial year, representing total comprehensive income for the financial year		14,932,332	-	14,932,332
Dividend paid, representing total transaction with Owners of the Group	7.5.23	(5,580,000)	-	(5,580,000)
At 31 May 2018/ 1 June 2018		51,818,895	-	51,818,895
Profit for the financial year, representing total comprehensive income for the financial year		13,336,148	331,940	13,668,088
Transactions with Owners of the Group:				
Dividend paid	7.5.23	(6,000,000)	-	(6,000,000)
Acquisition of a subsidiary	7.5.24	-	571,300	571,300
Increase in share capital		202	-	202
Total transactions with Owners of the Group		(5,999,798)	571,300	(5,428,498)
At 31 May 2019/ 1 June 2019		59,155,245	903,240	60,058,485
Profit for the financial year, representing total comprehensive income for the financial year		8,233,231	582,465	8,815,696
Remeasurement of non-controlling interests respresenting total transaction with Owners of the Group		-	439,995	439,995
		67,388,476	1,925,700	69,314,176

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.4 Combined Statements of Cash Flows For the Financial Years Ended 31 May 2018, 31 May 2019 And 31 May 2020

	Note	2018 RM	2019 RM	2020 RM
Cash Flows from Operating Activities				
Profit before tax		16,909,569	18,152,306	12,433,450
Adjustments for:				
Depreciation of property, plant and equipment		2,381,033	2,956,688	3,782,873
Gain on bargain purchase of a subsidiary	7.5.24	-	(139,827)	-
Gain on disposal of property, plant and equipment		(115,093)	-	-
Finance costs				
- Hire purchase liabilities		28,600	28,473	16,378
- Term loans		685,737	969,190	1,111,495
- Lease liability		-	-	17,634
Impairment loss on trade receivables		-	69,736	12,484
Interest income		(44,410)	(173,914)	(197,399)
Inventories written down		129,505	17,358	-
Unrealised gain on foreign exchange		(18,025)	(19,897)	(75,678)
Operating profit before working capital changes		19,956,916	21,860,113	17,101,237
Changes in working capital:-				
Changes in inventories		(1,538,756)	(1,437,944)	(284,725)
Changes in receivables		(333,166)	(459,096)	4,131,565
Changes in payables		478,114	(640,980)	(1,780,109)
Cash generated from operations		18,563,108	19,322,093	19,167,968
Interest paid		(714,337)	(997,663)	(976,372)
Interest received		44,410	173,914	197,399
Tax paid		(3,269,460)	(3,008,200)	(4,382,130)
Tax refunded		221,167	-	166,688
Net cash from operating activities		14,844,888	15,490,144	14,173,553

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.4 Combined Statements of Cash Flows For the Financial Years Ended 31 May 2018, 31 May 2019 And 31 May 2020 (cont'd)

	Note	2018 RM	2019 RM	2020 RM
Cash Flows from Investing Activities				
Increase in fixed deposits pledged		(112,140)	(113,426)	(114,919)
Net cash inflow from acquisition of a subsidiary	7.5.24	-	2,718,981	-
Purchase of property, plant and equipment	7.5.4	(2,085,586)	(4,840,824)	(5,303,213)
Sales proceed from disposal of property, plant and equipment		115,094	-	-
Net cash used in investing activities		(2,082,632)	(2,235,269)	(5,418,132)
Cash Flows from Financing Activities				
Advances (to)/from Directors		(2,888)	4,088	6,912
Dividend paid	7.5.23	(5,580,000)	(6,000,000)	-
Proceeds from issuance of share		-	202	-
Repayment of borrowings	(i)	(4,123,688)	(2,509,867)	(4,013,805)
Repayment of lease liability	(i)(ii)	-	-	(191,366)
Net cash used in financing activities		(9,706,576)	(8,505,577)	(4,198,259)
Net increase in cash and cash equivalents		3,055,680	4,749,298	4,557,162
Cash and cash equivalents at beginning of the financial year		11,456,429	14,471,123	19,236,744
Effect of exchange rate changes on cash and cash equivalents		(40,986)	16,323	20,001
Cash and cash equivalents at end of the financial year		14,471,123	19,236,744	23,813,907

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.4 Combined Statements of Cash Flows For the Financial Years Ended 31 May 2018, 31 May 2019 And 31 May 2020 (cont'd)

	Note	2018 RM	2019 RM	2020 RM
Cash and cash equivalents at end of the financial year comprise of:				
Cash and bank balances		12,459,156	14,141,938	13,973,641
Fixed deposits with licensed banks		2,976,331	6,172,596	11,032,975
		15,435,487	20,314,534	25,006,616
Less: Fixed deposits pledged as security	7.5.8	(964,364)	(1,077,790)	(1,192,709)
		14,471,123	19,236,744	23,813,907

(i) Reconciliation of movement of borrowings and lease liability to cash flows arising from financing activities:

	2018 RM	2019 RM	2020 RM
Term loans			
At beginning of the financial year	9,278,989	17,192,818	19,939,560
Acquisition of property, plant and equipment	11,841,137	4,383,926	5,745,991
Drawdown	-	2,038,759	-
Repayment	(3,868,297)	(3,672,369)	(3,837,215)
Effect of exchange rate fluctuations	(59,011)	(3,574)	-
Net changes in financing cash flows	7,913,829	2,746,742	1,908,776
At end of the financial year	17,192,818	19,939,560	21,848,336
Hire purchase liabilities			
At beginning of the financial year	295,865	631,402	422,145
Addition	590,928	-	-
Repayment	(255,391)	(209,257)	(176,590)
At end of the financial year	631,402	422,145	245,555

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.4 Combined Statements of Cash Flows For the Financial Years Ended 31 May 2018, 31 May 2019 And 31 May 2020 (cont'd)

(i) Reconciliation of movement of borrowings and lease liability to cash flows arising from financing activities: (cont'd)

	2018 RM	2019 RM	2020 RM
Lease liability			
At beginning of the financial year	-	-	-
Effect on adoption of MFRS 16	-	-	383,552
At beginning of the financial year, restated	-	-	383,552
Repayment	-	-	(191,366)
At end of the financial year	-	-	192,186

(ii) Cash outflow for leases as a lessee are as follows:

	2020 RM
Included in net cash from operating activities:	
Interest paid in relation to hire purchase liabilities	16,378
Interest paid in relation to lease liability	17,634
Payment in relating to lease:	
- Lease of low value of asset	14,275
- Short-term lease rental	490,891
Included in net cash used in financing activities:	
Payment for the principal portion of hire purchase liabilities	(176,590)
Payment for the principal portion of lease liability	(191,366)
	171,222

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.1 Revenue

Sales of paper-based and packaging products

The Group sells paper-based packaging comprising corrugated and non-corrugated pacakaging, as well as others such as brochures leaflets, labels and bags as well as trading and production of rigid boxs to customers. Revenue recognition is based on the delivery of the products to the customer, which requires customer acknowledgement that the goods have been accepted by the customer.

Performance obligation ("PO")

The contracts with customers are bundled and consist of obligations for the manufacture and sale of goods and the delivery of the said goods. The management has assessed that the delivery obligation is primarily a value-added fulfilment service and is not considered to be a significant distinct PO. Accordingly, the contracts with the respective customers are considered as a single PO and is satisfied on a point in time basis with payment generally due between 30 to 90 days from the date of invoice.

Timing of recognition

Revenue is recognised when control over the products has been transferred to the customer upon acknowledgement of the receipt of the products by customers.

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.2 Profit before tax

Profit before tax is arrived at after charging/(crediting):

	2018 RM	2019 RM	2020 RM
Auditors' remuneration:			
- current year	50,000	56,500	60,000
- prior year	(694)	-	-
Depreciation of property, plant and equipment	2,381,033	2,956,688	3,782,873
Directors' remuneration:			
- Directors' fee	206,049	183,624	259,327
- Salaries, wages, allowances and bonuses	622,429	616,319	746,396
- Contributions to defined contribution plan	118,972	120,458	139,241
- Contribution to social security	1,268	1,151	1,262
Gain on bargain purchase of a subsidiary (Note 7.5.24)	-	(139,827)	-
Gain on disposal of property, plant and equipment	(115,093)	-	-
Finance costs:			
- Hire purchase liabilities	28,600	28,473	16,378
- Term loans	685,737	969,190	1,111,495
- Lease liability	-	-	17,634
Impairment loss on trade receivables	-	69,736	12,484
Interest income	(44,410)	(173,914)	(197,399)
Inventories written down	129,505	17,358	-
Realised loss/(gain) on foreign exchange	64,529	(38,120)	(272,219)
Rental expenses/Short-term lease rental:			
- Equipment	45,220	43,200	39,600
- Factory	99,600	222,800	389,471
- Hostel	35,400	39,100	61,820
- Warehouse	40,000	-	-
Rental income	(48,000)	(251,600)	(385,935)
ROU assets:			
- Lease of low value of assets	-	-	14,275
Staff costs:			
- Salaries, wages, allowances and bonuses	5,942,783	7,009,455	8,446,878
- Contributions to defined contribution plan	475,052	660,933	726,779
- Contribution to social security	62,360	77,468	107,075
Unrealised gain on foreign exchange	(18,025)	(19,897)	(75,678)

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.3 Income tax expense

	2018 RM	2019 RM	2020 RM
Current tax:			
Current year	1,522,350	3,982,477	2,789,747
(Over)/Underprovision in prior year	(552,705)	6,367	207,222
	969,645	3,988,844	2,996,969
Deferred tax (Note 7.5.11):			
Origination of temporary differences	1,020,767	503,142	368,950
(Over)/Underprovision in prior year	(13,175)	(7,768)	251,835
	1,007,592	495,374	620,785
	1,977,237	4,484,218	3,617,754

Domestic income tax is calculated at the Malaysian statutory tax rate of 24% of the estimated assessable profit for the years.

The reconciliations from the tax amount at statutory income tax rate to the Group's income tax expense are as follows:

	2018 RM	2019 RM	2020 RM
Profit before tax	16,909,569	18,152,306	12,433,450
Tax at Malaysian statutory income tax rate of 24%	4,058,297	4,356,553	2,984,028
Non-deductible expenses	211,937	129,066	174,669
Tax savings arising from reinvestment allowance	(1,727,117)	-	-
(Over)/Underprovision of deferred tax in prior year	(13,175)	(7,768)	251,835
(Over)/Underprovision of current tax in prior year	(552,705)	6,367	207,222
	1,977,237	4,484,218	3,617,754

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.4 Property, plant and equipment

	Leasehold land and buildings RM	Plant and machineries RM	Motor vehicles RM	Office equipment and others* RM	Renovation RM	Building under construction RM	Total RM
2018							
Cost							
At 1 June	6,177,235	27,674,815	1,905,645	871,087	-	1,063,556	37,692,338
Additions	2,390,114	9,988,454	736,928	138,299	88,382	1,175,474	14,517,651
Reclassification	2,150,797	-	-	-	-	(2,150,797)	-
Disposals	-	-	(381,043)	-	-	-	(381,043)
At 31 May	10,718,146	37,663,269	2,261,530	1,009,386	88,382	88,233	51,828,946
Accumulated depreciation							
At 1 June	315,158	9,279,664	1,452,094	425,256	-	-	11,472,172
Charge for the financial year	121,207	1,995,721	197,710	63,592	2,803	-	2,381,033
Disposals	-	-	(381,042)	-	-	-	(381,042)
At 31 May	436,365	11,275,385	1,268,762	488,848	2,803	-	13,472,163
Net carrying amount	10,281,781	26,387,884	992,768	520,538	85,579	88,233	38,356,783

* *Office equipment and others comprise of signboard, tools and equipment, computers, furniture and fittings and air conditioners.*

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.4 Property, plant and equipment (cont'd)

	Leasehold land and buildings RM	Plant and machineries RM	Motor vehicles RM	Office equipment and others* RM	Renovation RM	Building under construction RM	Capital-work-in-progress RM	Total RM
2019								
Cost								
At 1 June	10,718,146	37,663,269	2,261,530	1,009,386	88,382	88,233	-	51,828,946
Acquisition of a subsidiary (Note 7.5.24)	-	1,151,360	-	18,133	-	-	-	1,169,493
Additions	5,718,015	1,373,345	-	326,453	53,340	1,603,597	150,000	9,224,750
At 31 May	16,436,161	40,187,974	2,261,530	1,353,972	141,722	1,691,830	150,000	62,223,189
Accumulated depreciation								
At 1 June	436,365	11,275,385	1,268,762	488,848	2,803	-	-	13,472,163
Acquisition of a subsidiary (Note 7.5.24)	-	57,568	-	341	-	-	-	57,909
Charge for the financial year	202,731	2,372,168	271,860	96,931	12,998	-	-	2,956,688
At 31 May	639,096	13,705,121	1,540,622	586,120	15,801	-	-	16,486,760
Net carrying amount	15,797,065	26,482,853	720,908	767,852	125,921	1,691,830	150,000	45,736,429

* *Office equipment and others comprise of signboard, tools and equipment, computers, furniture and fittings and air conditioners.*

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.4 Property, plant and equipment (cont'd)

	Leasehold land and buildings RM	Plant and machineries RM	Motor vehicles RM	Office equipment and others* RM	Renovation RM	Building under construction RM	Capital-work-in-progress RM	Lease of premise RM	Total RM
2020									
Cost									
At 1 June	16,436,161	40,187,974	2,261,530	1,353,972	141,722	1,691,830	150,000	-	62,223,189
Effect on adoption of MFRS 16	-	-	-	-	-	-	-	383,552	383,552
At 1 June, restated	16,436,161	40,187,974	2,261,530	1,353,972	141,722	1,691,830	150,000	383,552	62,606,741
Additions	804,124	9,788,026	39,000	239,450	-	178,604	-	-	11,049,204
Reclassifications	1,870,434	150,000	-	-	-	(1,870,434)	(150,000)	-	-
At 31 May	19,110,719	50,126,000	2,300,530	1,593,422	141,722	-	-	383,552	73,655,945
Accumulated depreciation									
At 1 June	639,096	13,705,121	1,540,622	586,120	15,801	-	-	-	16,486,760
Charge for the financial year	324,663	2,849,557	274,460	119,907	14,172	-	-	200,114	3,782,873
At 31 May	963,759	16,554,678	1,815,082	706,027	29,973	-	-	200,114	20,269,633
Net carrying amount	18,146,960	33,571,322	485,448	887,395	111,749	-	-	183,438	53,386,312

* *Office equipment and others comprise of signboard, tools and equipment, computers, furniture and fittings and air conditioners.*

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.4 Property, plant and equipment (cont'd)

(a) The total net carrying amount of property, plant and equipment held under lease arrangements and term loans are as follows:

	2018 RM	2019 RM	2020 RM
Net carrying amount			
Lease arrangements	698,100	398,103	279,918
Term loans	27,671,782	34,499,976	38,933,622
	28,369,882	34,898,079	39,213,540

(b) Acquisition of property, plant and equipment are satisfied by the following:

	2018 RM	2019 RM	2020 RM
Cash	2,085,586	4,840,824	5,303,213
Lease arrangements	590,928	-	-
Term loan	11,841,137	4,383,926	5,745,991
	14,517,651	9,224,750	11,049,204

(c) The following property, plant and equipment of the Group with net carrying amounts stated are charged as securities for borrowings as disclosed in Note 7.5.10:

	2018 RM	2019 RM	2020 RM
Leasehold land and buildings	10,034,214	10,218,779	11,904,310
Building under construction	88,233	1,691,830	-
Plant and machineries	17,546,337	18,032,801	21,005,600
	27,668,784	29,943,410	32,909,910

(d) The leasehold lands of the Group have unexpired lease periods of more than 50 years.

(e) The total cost and net carrying amount of ROU assets recognised by the Group are as follows:

	Cost 2020	Net carrying amount 2020 RM
Motor vehicles	590,928	279,918
Lease of premise	383,522	183,438
Leasehold land	8,126,765	7,763,712
	9,101,215	8,227,068

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.4 Property, plant and equipment (cont'd)

(f) The expense charged to profit or loss related to MFRS 16 requirements during the financial year are as follows:

	2020
	RM
Depreciation of ROU assets	420,098
Interest expense of hire purchase liabilities	16,378
Interest expense of lease liability	17,634
	454,110

7.5.5 Inventories

	2018	**2019**	**2020**
	RM	**RM**	**RM**
At cost:			
Raw materials	6,065,296	6,249,535	7,189,543
Work-in-progress	398,620	187,908	302,004
Finished goods	786,948	2,251,365	1,485,259
	7,250,864	8,688,808	8,976,806
At net realisable value:			
Raw materials	20,631	3,273	-
Total	7,271,495	8,692,081	8,976,806
Recognised in profit or loss:			
Inventories recognised as cost of sales	31,171,924	52,043,894	66,680,171
Inventories written down	129,505	17,358	-

7.5.6 Trade Receivables

	2018	**2019**	**2020**
	RM	**RM**	**RM**
Gross	17,087,558	20,106,886	17,106,017
Allowance of impairment:			
At beginning of financial year	-	-	(69,736)
Addition	-	(69,736)	(12,484)
At end of financial year	-	(69,736)	(82,220)
Net	17,087,558	20,037,150	17,023,797

The normal credit terms of trade receivables are range from 30 to 90 days (2019 and 2018: 30 to 90 days).

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.7 Other Receivables

	2018 RM	2019 RM	2020 RM
Other receivables	395,275	97,321	82,807
Deposits	458,162	1,132,736	221,290
Prepayments	130,646	367,532	218,473
	984,083	1,597,589	522,570

7.5.8 Fixed Deposits with Licensed Banks

	2018	2019	2020
Effective interest rate per annum (%)	3.1 - 4.2	3.2 - 4.2	3.1 - 4.2
Pledged to licensed banks (RM) (Note 7.5.10)	964,364	1,077,790	1,192,709

Fixed deposits placed with licensed banks have maturity periods of 12 months (2019 and 2018: 12 months).

7.5.9 Non-Controlling Interests

The subsidiary of the Group that has non-controlling interests ("NCI")

	2019 RM	2020 RM
Envy Premium		
NCI percentage of ownership and voting interest (%)	55%	49%
Carrying amount of NCI	903,240	1,925,700
Profit for the year allocated to NCI	331,940	583,465
Total comprehensive income for the year allocated to NCI	331,940	583,465

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.9 Non-Controlling Interest (cont'd)

The subsidiary of the Group that has non-controlling interests ("NCI") (cont'd)

	2019 RM	2020 RM
Envy Premium		
Assets and liabilities		
Non-current assets	1,264,798	1,423,294
Current assets	3,865,494	6,686,848
Non-current liabilities	(527,838)	(431,850)
Current liabilities	(2,960,199)	(3,748,293)
Net assets	1,642,255	3,929,999
Results		
Revenue	15,907,460	32,109,965
Profit for the year	911,641	1,188,961
Total comprehensive income	911,641	1,188,961
Cash flows from:		
- Operating activities	1,557,806	2,274,047
- Investing activities	(241,685)	(125,436)
- Financing activities	238,000	352,417

7.5.10 Borrowings

	Note	2018 RM	2019 RM	2020 RM
Non-current				
Hire purchase liabilities	(a)	427,439	224,361	106,206
Term loans	(b)	13,598,109	15,995,944	17,577,324
		14,025,548	16,220,305	17,683,530
Current				
Hire purchase liabilities	(a)	203,963	197,784	139,349
Term loans	(b)	3,594,709	3,943,616	4,271,012
		3,798,672	4,141,400	4,410,361
Total borrowings				
Hire purchase liabilities	(a)	631,402	422,145	245,555
Term loans	(b)	17,192,818	19,939,560	21,848,336
		17,824,220	20,361,705	22,093,891

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.10 Borrowings (cont'd)

Interest rate per annum at the reporting date for borrowings are as follows:

	2018 %	2019 %	2020 %
Hire purchase liabilities	4.48 - 6.53	4.48 - 6.15	4.48 - 6.15
Term loans	4.65 - 6.25	4.65 - 6.80	4.41 - 6.80

(a) Hire purchase liabilities

The aggregate commitment for future hire purchase liabilities payments are as follows:

	2018 RM	2019 RM	2020 RM
Minimum hire purchase payments:			
Repayable within one year	237,446	217,305	148,823
Repayable between one to two years	217,305	125,484	108,693
Repayable between two to five years	231,569	109,424	-
	686,320	452,213	257,516
Less: Future finance charges	(26,021)	(54,918)	(11,961)
Present value of hire purchase liabilities	660,299	397,295	245,555
Present value of hire purchase liabilities:			
Repayable within one year	203,963	197,784	139,349
Repayable between one to two years	201,122	118,156	106,206
Repayable between two to five years	226,317	106,205	-
	631,402	422,145	245,555
Representing:			
Current portion	203,963	197,784	139,349
Non-current portion	427,439	224,361	106,206
	631,402	422,145	245,555

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.10 Borrowings (cont'd)

(b) Term loans

	2018 RM	2019 RM	2020 RM
Current liabilities			
Repayable within one year	3,594,709	3,943,616	4,271,012
Non-current liabilities			
Repayable between one to two years	2,975,206	4,032,769	3,730,334
Repayable between two to five years	7,490,837	5,469,430	7,356,685
Repayable more than five years	3,132,066	6,493,745	6,490,305
	13,598,109	15,995,944	17,577,324
Total	17,192,818	19,939,560	21,848,336

Term loans are secured as follows:

(i) Certain property, plant and equipment as disclosed in Note 7.5.4(c);

(ii) Fixed deposits with licensed banks as disclosed in Note 7.5.8;

(iii) Negative pledge over the assets of the Group; and

(iv) Joint and several guarantee in favour of the bank by the Directors of the Group.

7.5.11 Deferred Tax Liabilities

	2018 RM	2019 RM	2020 RM
At beginning of the financial year	3,306,583	4,314,175	4,878,631
Acquisition of a subsidiary	-	69,082	-
Recognised in profit and loss (Note 7.5.3)	1,007,592	495,374	620,785
At end of the financial year	4,314,175	4,878,631	5,499,416

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.11 Deferred tax liabilities (cont'd)

The recognised deferred tax liabilities/(assets) before offsetting are as follows:

	Property, plant and equipment RM	Other taxable temporary differences RM	Total RM
Deferred tax liabilities			
At 1 June 2017	3,297,620	29,902	3,327,522
Recognised in profit or loss	1,008,369	(21,716)	986,653
At 31 May 2018	4,305,989	8,186	4,314,175
At 1 June 2018	4,305,989	8,186	4,314,175
Recognised in profit or loss	503,560	(8,186)	495,374
Acquisition of a subsidiary	69,082	-	69,082
At 31 May 2019	4,878,631	-	4,878,631
At 1 June 2019	4,878,631	-	4,878,631
Recognised in profit or loss	665,236	13,940	679,176
At 31 May 2020	5,543,867	13,940	5,557,807

	Other deductible temporary differences RM	Unabsorbed capital allowances RM	Total RM
Deferred tax asset			
At 1 June 2017	(20,939)	-	(20,939)
Recognised in profit or loss	20,939	-	20,939
At 31 May 2018	-	-	-
At 1 June 2018	-	-	-
Recognised in profit or loss	-	-	-
Acquisition of a subsidiary	-	-	-
At 31 May 2019	-	-	-
At 1 June 2019	-	-	-
Recognised in profit or loss	(2,100)	(56,291)	(58,391)
At 31 May 2020	(2,100)	(56,291)	(58,391)

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.12 Lease Liability

	2020 RM
Minimum lease payment:	
Repayable within one year	198,000
Less: Future finance charges	(5,814)
Present value of lease liability	192,186
Present value of lease liability:	
Repayable within one year	192,186

Representing lease liability arose from rental of premises as disclosed in Note 6.2(a)(i) to the combined financial statements due to the adoption of MFRS 16 requirements.

Effective interest rate per annum at the reporting date for lease liability is as follow:

	2020 %
Lease liability	6.00

7.5.13 Trade Payables

The normal trade credit terms granted for the trade payables to the Group range from 30 to 90 days (2019 and 2018: 30 to 90 days).

7.5.14 Other Payables

	2018 RM	2019 RM	2020 RM
Other payables	660,518	1,587,730	436,496
Accruals	952,577	1,193,120	1,456,452
	1,613,095	2,780,850	1,892,948

7.5.15 Amounts Due to Directors

These amounts are unsecured, non-trade in nature, interest free and are repayable on demand.

7.5.16 Amounts Due to Shareholders

These amounts are unsecured, non-trade in nature, interest free and are repayable on demand.

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.17 Related Parties' Disclosures

For the purposes of these combined financial statements, 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 operating decision, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group has related party relationships with its shareholders, related parties and key management personnel. Related parties refer to companies in which certain Directors have substantial financial interests and/or are also Directors of the companies.

Related parties' transactions

The related parties' transactions of the Group are shown below:

	2018 RM	2019 RM	2020 RM
Directors			
Capitalisation of amounts due to Directors	-	-	(360,000)
Advances (to)/from	(2,888)	364,088	6,912
Shareholders			
Capitalisation of amounts due to shareholders	-	-	(80,000)
Advances from	-	80,000	-

Information regarding outstanding balances arising from related parties' transactions as at reporting date are disclosed in Note 7.5.15 and 7.5.16 respectively.

Compensation of key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group either directly or indirectly. The key management personnel are made up of all the Directors of the Group.

The remuneration paid by the Group to key management personnel during the financial year has been disclosed in Note 7.5.2.

7.5.18 Capital Commitment

	2018 RM	2019 RM	2020 RM
Approved and contracted for:			
Construction cost of a factory	1,893,964	595,902	-
Plant and machinery	-	6,549,692	131,128
Balance committed for initial public offering expenses	3,689,500	3,232,097	2,023,303
	5,583,464	10,377,691	2,154,431

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.19 Segment Information

For management purposes, the Group is organised into business units based on their products and services, and has three reportable operating segments as follows:

Corrugated packaging	Printing and production of corrugated packaging
Non-corrugated packaging	Printing and production of non-corrugated packaging
Others	Printing and production of brochures, leaflets, labels and paper bags as well as production and trading of rigid boxes

Except as indicated above, no other operating segments has been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which, in certain respects as explained in the table below, is measured differently from operating profit or loss in the combined statement of comprehensive income. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.19 Segment Information (cont'd)

	Note	Corrugated Packaging RM	Non Corrugated Packaging RM	Others RM	Adjustment & Elimination RM	Combined RM
2018						
External revenue		28,094,696	32,031,324	4,268,501	-	64,394,521
Inter segment revenue	(a)	-	19,654,151	3,189,998	(22,844,149)	-
Total revenue		28,094,696	51,685,475	7,458,499	(22,844,149)	64,394,521
Results						
Depreciation		619,144	1,435,826	334,394	(8,331)	2,381,033
Other non-cash income	(b)	(1,164)	(2,141)	(308)	-	(3,613)
Segment profit	(c)	5,445,074	10,013,318	1,442,846	8,331	16,909,569
Assets						
Addition to non-current assets	(d)	4,677,154	8,601,136	1,239,361	-	14,517,651
Segment assets	(e)	28,464,318	52,344,969	7,542,527	(8,686,691)	79,665,123
Liabilities						
Segment liabilities	(f)	11,454,149	21,063,813	3,035,142	(7,706,876)	27,846,228

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.19 Segment Information (cont'd)

	Note	Corrugated Packaging RM	Non Corrugated Packaging RM	Others RM	Adjustment & Elimination RM	Combined RM
2019						
External revenue		29,953,913	33,054,527	19,672,414	-	82,680,854
Inter segment revenue	(a)	457,377	9,716,471	9,239,464	(19,413,312)	-
Total revenue		30,411,290	42,770,998	28,911,878	(19,413,312)	82,680,854
Results						
Depreciation		746,395	1,835,735	382,889	(8,331)	2,956,688
Other non-cash income	(b)	(33,465)	(30,427)	(8,738)	-	(72,630)
Segment profit	(c)	8,478,804	7,709,317	2,213,982	(249,797)	18,152,306
Assets						
Addition to non-current assets	(d)	4,250,321	3,864,587	1,109,842	-	9,224,750
Segment assets	(e)	46,275,084	42,075,430	12,083,334	(4,056,065)	96,377,783
Liabilities						
Segment liabilities	(f)	18,004,469	16,370,489	4,701,321	(2,756,981)	36,319,298

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.19 Segment Information (cont'd)

	Note	Corrugated Packaging RM	Non Corrugated Packaging RM	Others RM	Adjustment & Elimination RM	Combined RM
2020						
External revenue		25,167,502	31,481,969	44,553,900	-	101,203,371
Inter segment revenue	(a)	755,814	514,088	343,853	(1,613,755)	-
Total revenue		25,923,316	31,996,057	44,897,753	(1,613,755)	101,203,371
Results						
Depreciation		1,024,281	2,098,620	668,303	(8,331)	3,782,873
Other non-cash income	(b)	(15,325)	(18,947)	(28,922)	-	(63,194)
Segment profit	(c)	3,127,588	3,866,621	5,430,910	8,331	12,433,450
Assets						
Adoption of MFRS 16	(d)	-	-	383,552	-	383,552
Addition to non-current assets	(d)	2,781,250	3,438,444	4,829,510	-	11,049,204
Segment assets	(e)	27,453,057	33,940,070	47,670,948	(3,401,188)	105,662,887
Liabilities						
Segment liabilities	(f)	9,514,915	11,763,239	16,522,204	(1,451,647)	36,348,711

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.19 Segment Information (cont'd)

(a) Inter-segment revenues are eliminated on combined process.

(b) Other material non-cash expenses/(income) consist of the following items as presented in the respective notes to the combined financial statements:

	2018 RM	2019 RM	2020 RM
Gain on bargain purchase of a subsidiary	-	(139,827)	-
Gain on disposal of property, plant and equipment	(115,093)	-	-
Impairment loss on trade receivables	-	69,736	12,484
Inventories written down	129,505	17,358	-
Unrealised gain on foreign exchange	(18,025)	(19,897)	(75,678)
	(3,613)	(72,630)	(63,194)

(c) The following items are added to segment profit to arrive at profit before tax presented in the combined statements of comprehensive income:

	2018 RM	2019 RM	2020 RM
Depreciation of property, plant and equipment	(8,331)	(8,331)	(8,331)
Gain on bargain purchase of a subsidiary	-	(139,827)	-
Elimination of pre-acquisition result of a subsidiary	-	397,955	-
	(8,331)	249,797	(8,331)

(d) Additions to non-current assets consist of:

	2018 RM	2019 RM	2020 RM
Property, plant and equipment			
- Adoption of MFRS 16	-	-	383,552
- Addition	14,517,651	9,224,750	11,049,204
	14,517,651	9,224,750	11,432,756

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.19 Segment Information (cont'd)

(e) The following items are deducted from segment assets to arrive at total assets reported in the combined statements of financial position:

	2018 RM	2019 RM	2020 RM
Inter-segment assets	(8,686,691)	(4,056,065)	(3,401,188)

(f) The following items are deducted from segment liabilities to arrive at total liabilities reported in the combined statements of financial position:

	2018 RM	2019 RM	2020 RM
Inter-segment liabilities	(7,706,876)	(2,756,981)	(1,451,647)

7.5.20 Financial Instruments

Categories of financial instruments

The Group categorised its financial assets (excluding prepayments) and financial liabilities as amortised cost respectively.

Financial Risk Management Objectives and Policies

The Group's activities are exposed to a variety of financial risks which include credit risk, liquidity risk, foreign currency risk, and interest rate risk. The Group's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is integral to the whole business of the Group. Management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in the market conditions and the Group's activities.

There have been no changes to the Group's exposure to these financial risks or the manner in which it manages and measures the risk.

(i) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from their receivables (which consist of trade receivables and other receivables). For other financial assets (including cash and bank balances and fixed deposits with licensed banks), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating units, the Group does not offer credit terms without the approval of the Directors.

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.20 Financial Instruments (cont'd)

Financial risks management objectives and policies (cont'd)

(i) Credit risk (cont'd)

<u>**Trade receivables**</u>

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the maximum exposure to credit risk from receivables is represented by the carrying amounts in the combined statements of financial position.

Credit risk concentration profile

At the reporting date, the Group's major concentration of credit risk relates to the amounts owing by 6 (2019: 8, 2018: 5) customers which constituted approximately 74% (2019: 66%, 2018: 51%) of its trade receivables as at the end of the reporting date.

Recognition and measurement of impairment loss

The Group applies the MFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for trade receivables.

The Group assesses impairment of trade receivables on individual and collective basis.

For individual assessment, it is due to the number of debtors is minimal and these debtors can be individually managed by the Group in an effective and efficient manner. The Group has reasonable and supportable information available to assess the impairment individually. All these customers have low risk of default.

For collective assessment, the Group uses an allowance matrix to measure ECL of collective assessed receivables as they are grouped based on shared credit risk characteristics, the days past due and similar types of contracts which have similar risk characteristics.

Loss rates under collective assessment are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to 365 days past due from the date of invoices. Loss rates are based on actual credit loss experienced over the past three years. The Group also considers differences between (a) economic conditions during the period over which the historic data has been collected, (b) current conditions and (c) the Group's view of economic conditions over the expected lives of the receivables.

Consistent with the debt recovery process, invoices which are past due more than 365 days from the date of invoices as applicable to the relevant Group's entities will be considered as credit impaired.

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.20 Financial Instruments (cont'd)

Financial risks management objectives and policies (cont'd)

(i) Credit risk (cont'd)

Trade receivables (cont'd)

Recognition and measurement of impairment loss (cont'd)

The following table provides information about the exposure to credit risk and ECL for trade receivables as at 31 May 2020, 31 May 2019 and 31 May 2018.

	2018 RM	2019 RM	2020 RM
Gross			
Not past due nor impaired	4,464,727	13,038,415	9,997,987
Past due not impaired:			
Less than 30 days	4,672,433	3,174,638	2,952,593
31 to 60 days	3,251,160	2,146,660	2,215,115
61 to 90 days	2,584,360	708,673	1,295,870
91 to 120 days	2,114,878	1,038,500	644,452
	12,622,831	7,068,471	7,108,030
Less: Loss allowances	-	(69,736)	(82,220)
Net	17,087,558	20,037,150	17,023,797

The gross carrying amounts of credit impaired trade receivables are written off when there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write-off. Nevertheless, trade receivables that are written off could still be subject to enforcement activities.

Receivables that are past due but not impaired

The Group has not provided for these trade receivables as there has been no significant change in their credit quality and the amounts are still considered recoverable which are not past due for more than 365 days i.e. the observation period set by the Group. These relate to a number of independent customers for whom there is no recent history of default.

Credit impaired

Receivables that are individually determined to be credit impaired at the financial year end relate to debtors who are in significant financial difficulties and have defaulted on payments.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.20 Financial Instruments (cont'd)

Financial risks management objectives and policies (cont'd)

(i) Credit risk (cont'd)

Cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions. As at the reporting period, the maximum exposure to credit risk is represented by their carrying amounts in the combined statements of financial position. These banks and financial institutions have low credit risks. Hence, a loss allowance is not necessary.

Other receivables and deposits

Other receivables and deposits are neither past due nor impaired. The Group believes that generally no allowance for doubtful debts is necessary in respect of other receivables and deposits that are neither past due nor impaired as these receivables and deposits are mainly arising from debtors that have good records of payment in the past.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's exposure to liquidity risk arises principally from its various payables, borrowings and lease liabilities.

The Group practices prudent risk management by maintaining sufficient cash balances and the availability of funding through certain committed credit facilities.

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.20 Financial Instruments (cont'd)

Financial risks management objectives and policies (cont'd)

(ii) Liquidity risk (cont'd)

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):

			← Contractual cash flows →		
	Carrying amount RM	**Contractual cash flow RM**	**Within 1 year RM**	**2 to 5 years RM**	**Over 5 years RM**
2020					
Trade payables	6,659,270	6,659,270	6,659,270	-	-
Other payables	1,892,948	1,892,948	1,892,948	-	-
Amounts due to Directors	11,000	11,000	11,000	-	-
Borrowings	22,093,891	26,489,346	5,589,909	13,250,342	7,649,095
Lease liability	192,186	198,000	198,000	-	-
	30,849,295	35,250,564	14,351,127	13,250,342	7,649,095

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.20 Financial Instruments (cont'd)

Financial risks management objectives and policies (cont'd)

(ii) Liquidity risk (cont'd)

The following table sets out the maturity profile of the financial liabilities as at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period): (cont'd)

			Contractual cash flows		
	Carrying amount RM	Contractual cash flow RM	Within 1 year RM	2 to 5 years RM	Over 5 years RM
2019					
Trade payables	7,382,337	7,382,337	7,382,337	-	-
Other payables	2,780,850	2,780,850	2,780,850	-	-
Amounts due to Directors	364,088	364,088	364,088	-	-
Amounts due to shareholders	80,000	80,000	80,000	-	-
Borrowings	20,361,705	22,834,097	5,028,246	10,434,651	7,371,200
	30,968,980	33,441,372	15,635,521	10,434,651	7,371,200
2018					
Trade payables	4,094,738	4,094,738	4,094,738	-	-
Other payables	1,613,095	1,613,095	1,613,095	-	-
Borrowings	17,824,220	13,855,269	4,083,741	4,063,600	5,707,928
	23,532,053	19,563,102	9,791,574	4,063,600	5,707,928

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.20 Financial Instruments (cont'd)

Financial risks management objectives and policies (cont'd)

(iii) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group is exposed to foreign currency risk on financial assets and financial liabilities that are denominated in a currency other than the functional currency of the Group. The currencies giving rise to this risk are primarily United States Dollar ("USD") and Singapore Dollar ("SGD").

Exposure to foreign currency risk

The Group's significant exposure to foreign currency risk, based on carrying amounts as at end of the reporting period was:

	USD RM	SGD RM	Total RM
2020			
Trade receivables	2,386,290	40,765	2,427,055
Cash and bank balances	1,253,077	661,843	1,914,920
	3,639,367	702,608	4,341,975
2019			
Trade receivables	1,168,939	136,598	1,252,537
Cash and bank balances	495,385	334,801	830,186
Borrowings	-	(530,020)	(530,020)
	1,664,324	(58,621)	1,552,703
2018			
Trade receivables	508,996	104,078	613,074
Cash and bank balances	263,946	617,302	881,248
Borrowings	-	(1,409,200)	(1,409,200)
	772,942	(687,820)	85,122

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.20 Financial Instruments (cont'd)

Financial risks management objectives and policies (cont'd)

(iii) Foreign currency risk (cont'd)

Foreign currency risk sensitivity analysis

A 10% strengthening/weakening of the functional currency of the Group against the foreign currencies at the end of the reporting period would have increased/(decreased) profit after tax and equity by the amounts shown below:

	Increase/(Decrease) in profit after tax/equity		
	2018	**2019**	**2020**
	RM	**RM**	**RM**
RM/USD			
- strengthened 10%	(58,744)	(126,489)	(276,592)
- weakened 10%	58,744	126,489	276,592
RM/SGD			
- strengthened 10%	52,274	4,455	(53,398)
- weakened 10%	(52,274)	(4,455)	53,398

(iv) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to interest rate risk arises mainly from interest-bearing financial assets and liabilities. The Group's policy is to obtain the most favorable interest rates available.

Exposure in interest rate risk

The interest rate profile of the Group's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting period was:

	2018	**2019**	**2020**
	RM	**RM**	**RM**
Floating rate instrument:			
Term loans	(17,192,818)	(19,939,560)	(21,848,336)
Fixed rate instruments:			
Fixed deposits with licensed banks	2,976,331	6,172,596	11,032,975
Hire purchase liabilities	(631,402)	(422,145)	(245,555)
Lease liability	-	-	(192,186)
	(14,847,889)	(14,189,109)	(11,253,102)

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.20 Financial Instruments (cont'd)

Financial risks management objectives and policies (cont'd)

(iv) Interest rate risk (cont'd)

Interest rate risk sensitivity analysis

The following table details the sensitivity analysis on the floating rate instruments to a reasonably possible change in the interest rate as at the end of the reporting period, with all other variables held constant:

	(Decrease)/Increase		
	2018	2019	2020
	RM	RM	RM
Effect of profit after tax/equity			
Increase of 10 basis point	(13,067)	(15,154)	(16,605)
Decrease of 10 basis point	13,067	15,154	16,605

7.5.21 Fair Value Information

Financial instrument other than those carried at fair value

Financial instruments that are not carried at fair value and whose carrying amounts are reasonable approximation of fair value.

The carrying amounts of financial assets and financial liabilities approximate their fair values due to relatively short-term nature of these financial instruments and insignificant impact of discounting.

The fair value of hire purchase liabilities and lease liability is determined by discounting the relevant cash flows using current interest rates for similar instruments as at the end of the reporting year. The carrying value and fair value of the hire purchase liabilities and lease liability are not materially different.

The carrying amounts of long-term floating rate borrowings approximate their fair value as the borrowings will be repriced to market interest rate on or near reporting date.

7.5.22 Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholders value.

The Group manages its capital structure and adjusts it, in light of changes in economic and business 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.

The Group manages its capital based on the debt-to-equity ratio. The Group's strategies were unchanged from the previous financial year. The debt-to-equity ratio is calculated as total debt divided by total equity (excluding non-controlling interest).

There were no changes in the Group's approach to capital management during the financial years. The Group is not subject to any externally imposed capital requirement.

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.22 Capital Management (cont'd)

The debt-to-equity ratios of the Group as at the end of the reporting period were as follows:

	2018 RM	2019 RM	2020 RM
Borrowings	17,824,220	20,361,705	22,093,891
Lease liability	-	-	192,186
Total debts	17,824,220	20,361,705	22,286,077
Total equity (excluding non-controlling interests)	51,818,895	59,155,245	67,388,476
Debt to equity ratio	0.34	0.34	0.33

7.5.23 Dividend

	Per ordinary share RM	Total amount RM	Date of payment
Declared during year ended 31 May 2018:			
Interim single tier dividend for the financial year ended 31 May 2018	0.50	1,500,000	1 February 2018
Interim single tier dividend for the financial year ended 31 May 2018	0.66	1,980,000	1 April 2018
Interim single tier dividend for the financial year ended 31 May 2018	0.70	2,100,000	30 May 2018
		5,580,000	
Declared during year ended 31 May 2019:			
Interim single tier dividend for the financial year ended 31 May 2019	1.00	3,000,000	30 November 2018
Interim single tier dividend for the financial year ended 31 May 2019	1.00	3,000,000	30 May 2019
		6,000,000	

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.24 Subsidiaries

Details of the effective equity interest of the subsidiaries, which were incorporated in Malaysia unless otherwise stated, are as follows:

	Effective Equity Interest		
	2018	**2019**	**2020**
Name of Companies	**%**	**%**	**%**
Hayan Prints	100	100	100
Hayan Packaging	100	100	100
Envy Premium*	-	45	51
Big Tree Realty^	100	100	100

* Envy Premium is the subsidiary of Hayan Prints.
^ Big Tree Realty is the subsidiary of Hayan Packaging.

Details of the principal activities of the subsidiaries and indirect subsidiaries, are as follows:

Company	**Principal activities**
Hayan Prints	Printing and production of paper-based packaging, both corrugated and non-corrugated
Hayan Packaging	Sales and marketing of paper-based packaging, both corrugated and non-corrugated
Envy Premium	Production and trading of rigid boxes
Big Tree Realty	Investment holding

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.24 Subsidiaries (cont'd)

Acquisition of a subsidiary

(a) Envy Premium

On 30 November 2018, the Group acquired 45% equity interest in Envy Premium with purchase consideration of RM327,600. Upon the acquisition, Envy Premium became a subsidiary of the Group. Envy Premium, an unlisted company incorporated in Malaysia, is engaged in production and trading in rigid boxes.

The fair value of the identifiable assets and liabilities of Envy Premium as at the date of acquisition were:

	2019 **RM**
Assets	
Property, plant and equipment	1,111,584
Trade receivables	3,068,285
Other receivables	141,453
Cash and bank balances	3,046,581
Total assets	7,367,903
Liabilities	
Trade payables	(4,827,263)
Other payables	(305,071)
Borrowings	(667,000)
Amount due to Directors	(360,000)
Amount due to shareholders	(80,000)
Deferred tax liability	(69,082)
Tax payable	(20,760)
Total liabilities	(6,329,176)
Net identifiable assets acquired and liabilities assumed	1,038,727
Less: Non-controlling interests	(571,300)
Less: Purchase consideration settled in cash and cash equivalents	(327,600)
Gain on bargain purchase of a subsidiary	139,827
Net cash flow arising from acquisition of subsidiary	
Purchase consideration settled in cash and cash equivalents	327,600
Less: Cash and cash equivalents acquired	(3,046,581)
Net cash inflow on acquisition of a subsidiary, representing net of cash and cash equivalents acquired	(2,718,981)

7.0 AUDITED FINANCIAL INFORMATION OF HPP HOLDINGS BERHAD (cont'd)

7.5.24 Subsidiaries (cont'd)

Capitalisation and subscription

On 16 October 2019, Envy Premium capitalised the amount due to Directors and shareholders amounting to RM439,995.60 which increased its issued share capital from RM800,000 comprising 800,000 ordinary shares to RM1,239,995.60 comprising 1,014,632 ordinary shares by way of issuance of 214,632 new ordinary shares at an issue price of RM2.05 per ordinary share.

Subsequently on 18 October 2019, Hayan Prints had subscribed 321,360 new ordinary shares in Envy Premium for a total consideration of RM658,788.00 or RM2.05 per ordinary share.

The above had increased the equity interest of Hayan Prints in Envy Premium from 45% to 51% and the issued share capital of Envy Premium was further increased from RM1,230,995.60 comprising of 1,014,632 ordinary shares to RM1,898,783.60 comprising 1,335,992 ordinary shares.

7.5.25 Significant Events During the Financial Year

During the fourth quarter of financial year 2020, the Coronavirus ("COVID-19") was declared as a global pandemic event which adversely affected the worldwide economic condition with the strict impositions of travel restrictions, constraints on the movement of people and the suspension of many business operations to curb the spread of COVID-19 pandemic. The emergence of COVID-19 outbreak has brought significant economic uncertainties in Malaysia and markets in which the Group operates.

The Group had temporarily ceased operations on 18 March 2020 for a brief period before being allowed to continue to operate at a reduced capacity as approvals were subsequently obtained from Ministry of International Trade and Industry ("MITI") during the Movement Control Order ("MCO") period subject to certain terms and conditions imposed by MITI. Hayan Prints and Envy Premium has resumed operations on 30 March 2020 and 20 April 2020 respectively. With the approvals obtained from MITI, the Group had accepted orders from customers that were allowed to operate during the MCO period. There were delays on delivery for those customers who were not allowed to operate during the MCO period and/or were experiencing movement and business operation restrictions in their respective countries.

Nonetheless, the COVID-19 pandemic has not resulted in any material impairment to its assets (including inventories or receivables) for the financial year 2020 or affected the Group's ability to continue its business as a going-concern. The interruption of the COVID-19 pandemic and imposition of the MCO did not have any material impact on the Group's operations and financial performance for the financial year 2020.

The Group will continue to pay close attention to the development of, and the disruption to their business activities caused by the prolonged effect of the COVID-19 pandemic and/or recovery MCO imposed by Malaysia Government and continually evaluate its impact on the financial position, cash flows and operating results of the Group. As of the date of the report, the Group is unable to quantify the financial impact given the uncertainties caused by the COVID-19 pandemic.

10. ADDITIONAL INFORMATION

10.1 EXTRACT OF OUR CONSTITUTION

The following provisions relating to the selected matters are reproduced from our Company's Constitution. Terms defined in our Constitution shall have the same meaning when used herein unless they are otherwise defined herein or the context otherwise requires.

(i) Remuneration of Directors

The provisions in our Company's Constitution in respect of the remuneration of Directors are as follows:

Clause 84

A Managing Director or an Executive Director shall, subject to the terms of any agreement entered into in any particular case, receive such remuneration (whether by way of salary, bonus, commission, or participation in profits, or partly in one way and partly in another and other benefits) as the Board of Directors may determine.

Clause 89

An Alternate Director:

(1) has no entitlement to receive remuneration from the Company and any fee paid by the Company to the Alternate Director shall be deducted from the appointer's remuneration; and

(2) is entitled to be reimbursed for all the travelling and other expenses properly incurred by him in attending the Board Meetings on behalf of the appointer from the Company.

Clause 90(2)

The Board may fix, determine and vary the powers, duties and remuneration of any person appointed as an associate director.

Clause 93

(1) The Company may from time to time by an ordinary resolution passed at a General Meeting, approve the remuneration of the Directors, who hold non-executive office with the Company, for their services as non-executive Directors.

(2) Subject to Clause 84, the fees of the Directors and any benefits payable to the Directors shall be subject to annual shareholders' approval at a General Meeting.

(3) If the fee of each such non-executive Director is not specifically fixed by the members, then the quantum of fees to be paid to each non-executive Director within the overall limits fixed by the members, shall be decided by resolution of the Board. In default of any decision being made in this respect by the Board, the fees payable to the non- executive Directors shall be divided equally amongst themselves and such a Director holding office for only part of a year shall be entitled to a proportionate part of a full year's fees. The non-executive Directors shall be paid by a fixed sum and not by a commission on or percentage of profits or turnover.

(4) The following expenses shall be determined by the Directors:

(a) Traveling, hotel and other expenses properly incurred by the Directors in attending and returning from meetings of the Directors or any committee of the Directors or General Meetings of the Company or in connection with the business of the Company; and

(b) Other expenses properly incurred by the Directors arising from the requirements imposed by the authorities to enable the Directors to effectively discharge their duties.

(5) Executive Directors of the Company shall be remunerated in the manner referred to in Clause 84 but such remuneration shall not include a commission on or percentage of turnover.

(ii) Voting and borrowing powers of Directors

The provisions in our Company's Constitution in respect of the voting and borrowing powers of Directors are as follows:

Clause 87

An Alternate Director is entitled to receive notice of Board Meetings and, if the Appointer is not present at such a meeting, is entitled to attend and vote in his stead.

Clause 95

The Directors may, subject to the Act and the Listing Requirements, exercise all the powers of the Company to do all or any of the following for any debt, liability, or obligation of the Company or of any third party:

(1) borrow money;

(2) mortgage or charge its undertaking, property, and uncalled capital, or any part of the undertaking, property and uncalled capital;

(3) issue debentures and other Securities whether outright or as security; and/or

(4) (a) lend and advance money or give credit to any person or company;

(b) guarantee and give guarantees or indemnities for the payment of money or the performance of contracts or obligations by any person or company;

(c) secure or undertake in any way the repayment of moneys lent or advanced to or the liabilities incurred by any person or company;

and otherwise to assist any person or company.

Clause 90(3)

A person appointed as an associate director does not have any right to attend or vote at any Board Meetings except by the invitation and with the consent of the Board.

Clause 105(a)

A Director shall not vote in regard to any contract or proposed contract or arrangement in which he has, directly or indirectly, an interest.

Clause 107

The Directors may pass a resolution without a Board Meeting, if a majority of the Directors entitled to vote and sign on the resolution signed the resolution, signifying their agreement to the resolution set out in the document.

Clause 118

(1) Subject to the Constitution, questions arising at a Board Meeting shall be decided by a majority of votes of Directors present and voting and any such decision shall for all purposes be deemed a decision of the Directors.

(2) Each Director is entitled to cast one (1) vote on each matter for determination.

Clause 119

In the case of an equality of votes, the chairperson of the Board Meeting is entitled to a second or casting vote, except where two (2) Directors form a quorum, the chairperson of a meeting at which only such a quorum is present, or at which only two (2) Directors are competent to vote on the question at issue shall not have a casting vote.

(iii) Changes in Share Capital

The provisions in our Company's Constitution in respect of the changes in share capital, which are no less stringent than those required by law, are as follows:

Clause 46

(1) The Company may from time to time by ordinary resolution and subject to other applicable laws or requirements:

(a) consolidate and divide all or any of its share capital, the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided share is derived; or

(b) subdivide its shares or any of the shares, whichever is in the subdivision; the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided share is derived.

(2) The Company may from time to time by special resolution and subject to other applicable requirements:

(a) cancel shares which, at the date of the passing of the resolution in that regard, 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 or in such other manner allowed by law; or

(b) reduce its share capital in such manner permitted by law, and (where applicable) subject to the relevant required approvals being obtained.

(3) The Company shall have the power, subject to and in accordance with the provisions of the Act, the Listing Requirements and any rules, regulations and guidelines in respect thereof for the time being in force, to purchase its own shares and thereafter to deal with the shares purchased in accordance with the provisions of the Act, the Listing Requirements and any rules, regulations and guidelines thereunder or issued by Bursa Securities and any other relevant authorities in respect thereof.

(iv) Transfer of Securities

The provision in our Company's Constitution in respect of the arrangements for transfer of securities and restrictions on their free transferability are as follows:

Clause 13

Clauses 14 and 15 shall apply to security standing to the credit of an account established by Bursa Malaysia Depository Sdn Bhd ("**Depository**") for the holder of the account for the recording of deposit, withdrawal and dealing in such securities by such holder of account ("**Deposited Security**").

Clause 14

The transfer of any Deposited Security or class of Deposited Security of the Company, shall be by way of book entry by the Depository in accordance with the Rules of Depository ("**Rules**") 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 the Deposited Securities.

Clause 15

Where:

(a) the securities of the Company are listed on another stock exchange; and

(b) the Company is exempted from compliance with Section 14 of the Securities Industry (Central Depositories) Act 1991 or Section 29 of the Securities Industry (Central Depositories) (Amendment) Act 1998, as the case may be, under the Rules in respect of such securities, the Company shall, upon request of a securities holder, permit a transmission of securities held by such securities holder from the register of holders maintained by the registrar of the Company in the jurisdiction of the other stock exchange, to the register of holders maintained by the registrar of the Company in Malaysia and vice versa provided that there shall be no change in the ownership of such securities.

Clause 17

(1) Subject to this Constitution and other written laws, any shareholder or debenture holder may transfer all or any of his shares or debentures by instrument of transfer as prescribed under the Act.

(2) The instrument of transfer must be executed by or on behalf of the transferor and the transferee.

(3) The transferor shall remain as the holder of such shares or debentures until the transfer is registered and the name of the transferee is entered in the register of members or register of debenture holders in respect of the shares or debentures respectively.

Clause 18

(1) To enable the Company to register the name of the transferee, the following items in relation to the transfer of shares or debentures must be delivered by the transferor to the Office of the Company:

(a) the instrument of transfer duly executed and stamped;

(b) the certificate of the shares or debentures which the instrument of transfer relates; and

(c) any other evidence as the Directors may reasonably require showing the right of the transferor to make the transfer.

(2) Upon receipt of the items referred to in Clause 18(1), the Company shall, upon the approval of the Board and unless otherwise resolved, register the name of the transferee in the register of members or register of debenture holders (as applicable).

Clause 19

(1) The Directors may decline or delay to register the transfer of shares within thirty (30) days from the receipt of the instrument of transfer if:

(a) the shares are not fully paid shares;

(b) the Directors passed a resolution with full justification to refuse or delay the registration of transfer;

(c) the Company has a lien on the shares; and/or

(d) the Shareholder fails to pay the Company an amount due in respect of those shares, whether by way of consideration for the issue of the shares or in respect of the sums payable by the Shareholder in accordance with this Constitution.

(2) Where applicable, the Company shall send a notice of the resolution referred to in Clause 19(1)(b) to the transferor and transferee, within seven (7) days of the resolution being passed by the Directors.

Clause 20

On giving at least fourteen (14) days' notice to the Registrar to close the register of members or register of debenture holders, the Company may close the register of members or register for any class of members or register of debenture holders (collectively, the "Registers") for the purpose of updating the Registers. The registration of transfer may be suspended at such time and for such period as the Directors may from time to time determine, provided that no part of the relevant Register(s) be closed for more than thirty (30) days in aggregate in any calendar year.

(v) Rights, Preferences and Restrictions of Class Rights

The provisions in our Company's Constitution in respect of rights, preferences and restrictions attached to each class of securities relating to voting, dividend, liquidation and any special rights, are as follows:

Clause 7

A holder of ordinary share(s) shall have the following voting rights:

(a) right to vote on a show of hands to one (1) vote on any resolution of the Company; and

(b) right to vote on a poll to one (1) vote for every share held on any resolution of the Company.

Subject to any applicable laws and any other requirements of Bursa Securities and the SC, any preference shares may with the sanction of an ordinary resolution be issued on the terms that they are or at the option of the Company are liable to be redeemed and the Company shall not issue preference shares ranking in priority over preference shares already issued but may issue preference shares ranking equally therewith.

(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 six (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 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 financial statements and attending meetings.

The repayment of preference share capital other than redeemable preference shares or any alteration of preference shareholders' rights shall only be made pursuant to a special resolution of the preference shareholders concerned provided always that where the necessary majority for such a resolution is not obtained at the meeting of the preference shareholders concerned, consent in writing obtained from seventy-five per centum (75%) of the holders of the preference shares within two (2) months of the meeting shall be valid and effectual as a special resolution carried at the meeting.

Clause 8

If at any time the share capital is divided into different classes of shares, the rights attached to each class of shares (unless otherwise provided by the terms of issue of the shares of that class) may only, whether or not the Company is being wound up, be varied:

(a) with the consent in writing of the holders holding not less than seventy-five percent (75%) of the total voting rights of the holders of that class of shares; or

(b) by a special resolution passed by a separate meeting of the holders of that class of shares sanctioning the variation.

The rights attached to an existing class of preference shares shall be deemed to be varied by the issue of new preference shares that rank equally with the existing class of preference shares unless such issuance was authorised by:

(a) the terms of the issue of the existing preference shares; or

(b) this Constitution of the Company as in force at the time when the existing preference shares were issued.

Clause 44

(1) The stockholders shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, voting at meetings of the Company and other matters as if they held the shares from which the stock arose.

(2) However, no such privilege or advantage (except participation in the dividends and profits of the Company and in the assets on winding up) shall be conferred by any such part of stock which would not, if existing shares have conferred that privilege or advantage.

Clause 137

A dividend may be declared by:

(a) the Directors; or

(b) the members on the recommendation of the Board of Directors as it thinks appropriate.

The payment of a dividend is to those holders of such class of shares as the Directors have determined in accordance with and subject to any conditions upon which the shares have been issued.

A dividend shall not exceed the amount recommended by the Directors.

Clause 150

(1) If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company:

   (a) divide amongst the members in kind the whole or any part of the property, if any, of the Company, whether they consist of property of the same kind or not;

(b) set a value as the liquidator considers fair upon the property, if any referred to in Clause 150(1)(a);

(c) determine how the division of property, if any is to be carried out as between the members or different classes of members; and

(d) vest the whole or any part of the property, if any, of the Company in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit.

(2) No member is compelled to accept any shares or other Securities on which there is any liability.

10.2 SHARE CAPITAL

(i) Save as disclosed in this Prospectus, no securities will be allotted or issued on the basis of this Prospectus after 6 months from the issuance date of this Prospectus.

(ii) The share capital of our Group as at the LPD and changes in their respective share capital for the FY Under Review or since incorporation (as the case may be) are as set out in Sections 4.4 and 4.5 of this Prospectus.

(iii) There are no special rights attached to our Shares. As at the date of this Prospectus, our Company has only 1 class of shares, namely ordinary shares, all of which rank *pari-passu* with one another.

(iv) Save for the new Shares issued pursuant to the Acquisitions as disclosed in Section 4.3 of this Prospectus, not more than 10% of the share capital of our Company or our subsidiaries has been paid for with assets other than cash, within the past 3 years preceding the LPD.

(v) None of the share capital of our Company or any of our subsidiaries is under option, or agreed conditionally or unconditionally to be put under option as at the date of this Prospectus.

(vi) Save for the Issue Shares reserved for application by the Eligible Parties as disclosed in Section 2.1.1.2(ii) of this Prospectus, there is no other scheme involving our Directors and employees in the share capital of our Company as at the date of this Prospectus.

(vii) Our Group does not have any outstanding warrants, options, convertible securities and uncalled capital as at the date of this Prospectus.

(viii) As at the date of this Prospectus, there is no limitation on the right to own our Shares, including limitations on the right of non-residents or foreign shareholders to hold or exercise their voting rights on our Shares imposed by law or by our Constitution.

10.3 RESPONSIBILITY STATEMENTS

Our Directors, Promoters and Selling Shareholders have seen and approved this Prospectus. They collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus. Having made all reasonable enquiries, and to the best of their knowledge and belief, they confirm that there is no false or misleading statement or other facts which if omitted, would make any statement in this Prospectus false or misleading.

Affin Hwang IB, being the Principal Adviser, Sponsor, Sole Underwriter and Sole Placement Agent acknowledges 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 the offering.

10.4 CONSENTS

(a) Our Principal Adviser, Sponsor, Sole Underwriter, Sole Placement Agent, Financial Adviser, Company Secretary, Solicitors, Share Registrar and Issuing House have given and have not subsequently withdrawn their written consents before the date of issue of the Prospectus with the inclusion of their names and all references thereto in the form, manner and context in which they are included in this Prospectus;

(b) Our Auditors and Reporting Accountants have given and have not subsequently withdrawn their written consent before the date of issue of the Prospectus with the inclusion of their name and all references thereto, the Accountants' Report and the Reporting Accountants' Report on the compilation of Pro Forma Consolidated Statement of Financial Position as at 31 May 2020, in the form, manner and context in which they are included in this Prospectus; and

(c) Our IMR have given and have not subsequently withdrawn its written consent before the date of issue of the Prospectus with the inclusion of its name and all references thereto and the IMR Report in the form, manner and context in which they are included in this Prospectus.

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11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at our Registered Office at 50-1, 52-1 & 54-1, Jalan BPM 2, Taman Bukit Piatu Mutiara, 75150 Melaka during the normal office hours for a period of 6 months from the date of this Prospectus:

(i) our Constitution;

(ii) NSNDA entered into between Hayan Prints and Company A as referred to in Section 4.20 of this Prospectus;

(iii) Agency Agreement entered into between Hayan Prints and Company A Malaysia as referred to in Section 4.20 of this Prospectus

(iv) NDA entered into between Hayan Prints and Group of Companies D as referred to in Section 4.20 of this Prospectus;

(v) MSA entered into between Hayan Prints and Company D Malaysia as referred to in Section 4.20 of this Prospectus;

(vi) the material contracts as referred to in Section 4.26 of this Prospectus;

(vii) the IMR Report together as set out in Section 4.32 of this Prospectus;

(viii) the letters of consent as set out in Section 10.4 of this Prospectus;

(ix) the Reporting Accountants' Report on the compilation of Pro Forma Consolidated Statement of Financial Position as at 31 May 2020 and the Accountants' Report as referred to in Sections 8.8 and 9 respectively of this Prospectus;

(x) the audited financial statements of our Company for the period from 29 November 2018 (date of incorporation) to 31 May 2019 and FYE 2020; and

(xi) the audited financial statements of Hayan Prints, Hayan Packaging, Big Tree Realty and Envy Premium for the FY Under Review.

12. 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 IPO 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 MIH 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.

12.1 OPENING AND CLOSING OF APPLICATIONS

OPENING OF THE APPLICATION PERIOD: 10.00 A.M., 15 DECEMBER 2020

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M., 7 JANUARY 2021

Applications for the Issue Shares will open and close at the dates stated above.

In the event there is any change to the dates stated above, we will advertise the notice of the change in a widely circulated daily English and Bahasa Malaysia newspaper in Malaysia.

Late Applications will not be accepted.

12.2 METHODS OF APPLICATIONS

12.2.1 Application for our Issue Shares by the Malaysian Public and the Eligible Parties

Types of Application and category of investors	Application Method
Applications by the Eligible Parties	Pink Application Form only
Applications by the Malaysian Public:	
(a) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(b) Non-Individuals	White Application Form only

12.2.2 Application by Selected Investors via placement

Types of Application	Application Method
Applications by:	
Selected investors	The Placement Agent will contact the Selected Investors directly. They should follow the Placement Agent's instructions.

12.3 ELIGIBILITY

12.3.1 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 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 IPO SHARES OR MULTIPLES OF 100 IPO 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.

12.3.2 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 MIH or an immediate family member of a director or employee of MIH; and

(iii) You must submit Applications by using only one of the following methods:

- (a) White Application Form;
- (b) Electronic Share Application; or
- (c) Internet Share Application.

12.3.3 Application by the Eligible Parties

The Eligible Parties will be provided with Pink Application Forms and letters from us detailing their respective allocation.

The Eligible Parties may request for a copy of the printed Prospectus from our Company at no cost and are given an option to have the printed Prospectus delivered to them free of charge, or to obtain the printed Prospectus from our Company, MIH, Affin Hwang IB, Participating organisations of Bursa Securities and Members of the Association of Banks in Malaysia or Malaysian Investment Banking Association.

12.4 PROCEDURES FOR APPLICATION BY WAY OF APPLICATION FORMS

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 RM0.36 for each IPO Share.

Payment must be made out in favour of "**MIH SHARE ISSUE ACCOUNT NO. 607**" 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) despatched by **ORDINARY POST** in the official envelopes provided, to the following address:

Malaysian Issuing House Sdn Bhd (Registration No. 199301003608 (258345-X))
11th Floor, Menara Symphony
No. 5, Jalan Prof. Khoo Kay Kim
Seksyen 13
46200 Petaling Jaya
Selangor Darul Ehsan

or

P.O. Box 00010
Pejabat Pos Jalan Sultan
46700 Petaling Jaya
Selangor Darul Ehsan

(ii) **DELIVERED BY HAND AND DEPOSITED** in the Drop-in Boxes provided at the front portion of Menara Symphony, No. 5, Jalan Prof. Khoo Kay Kim, Seksyen 13, 46200 Petaling Jaya, Selangor Darul Ehsan,

so as to arrive not later than 5.00 p.m. on 7 January 2021 or by such other time and date specified in any change to the date or time for closing.

We, together with MIH, 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 MIH.

12.5 APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATIONS

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 and RHB Bank Berhad. A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

The exact procedures, terms and conditions for Electronic Share Application are set out on the ATM screens of the relevant Electronic Participating Financial Institutions.

12.6 APPLICATION BY WAY OF INTERNET SHARE APPLICATIONS

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, CGS-CIMB Securities Sdn. Bhd, 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.

12.7 AUTHORITY OF OUR BOARD AND MIH

MIH, 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

(ii) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and

(iii) bank in all Application monies (including those from unsuccessful/partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 12.9 below.

If you are successful in your Application, our Board reserves the right to require you to appear in person at the registered office of MIH at any time within 14 days of the date of the notice issued to you to ascertain that your Application is genuine and valid. Our Board shall not be responsible for any loss or non-receipt of the said notice nor will it be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

12.8 OVER / UNDER-SUBSCRIPTION

In the event of over-subscription, MIH will conduct a ballot in the manner approved by our Directors to determine the acceptance of Applications in a fair and equitable manner. In determining the manner of balloting, our Directors will consider the desirability of allotting and allocating our IPO Shares to a reasonable number of applicants for the purpose of broadening the shareholding base of our Company and establishing a liquid and adequate market for our Shares.

The basis of allocation of shares and the balloting results in connection therewith will be furnished by the issuing house to the SC, Bursa Securities, all major Bahasa Malaysia and English newspapers as well as posted on the issuing house's website (www.mih.com.my) within 1 business day after the balloting event.

Pursuant to the Listing Requirements we are required to have a minimum of 25% of our Company's issued share capital to be held by at least 200 public shareholders holding not less than 100 Shares each upon Listing and completion of our IPO. We expect to achieve this at the point of Listing. In the event the above requirement is not met, we may not be allowed to proceed with our Listing. In the event thereof, monies paid in respect of all Applications will be returned in full (without interest).

In the event of an under-subscription of our IPO Shares by the Malaysian Public and/or Eligible Parties, subject to the clawback and reallocation provisions as set out in Sections 2.1.4 of this Prospectus, any of the abovementioned IPO Shares not applied for will then be subscribed by the Sole Underwriter based on the terms of the Underwriting Agreement.

12.9 UNSUCCESSFUL/ PARTIALLY SUCCESSFUL APPLICANTS

If you are unsuccessful/partially successful in your Application, your Application monies (without interest) will be refunded to you in the following manner.

12.9.1 For applications by way of Application Forms

(i) The Application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend/distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary/registered post to your last address maintained with Bursa Depository (for partially successful applications) within ten (10) Market Days from the date of the final ballot at your own risk.

(ii) If your Application is rejected because you did not provide a CDS account number, your Application monies will be refunded via banker's draft sent by ordinary/registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.

(iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by MIH as per items (i) and (ii) above (as the case may be).

(iv) MIH reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within ten (10) Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend/distribution) or by issuance of banker's draft sent by registered post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (ii) above (as the case may be).

12.9.2 For applications by way of Electronic Share Application and Internet Share Application

(i) MIH shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within two (2) Market Days after the balloting date. The full amount of the Application monies or the balance of it will be credited without interest into your account with the Participating Financial Institutions or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) within two (2) Market Days after the receipt of confirmation from MIH.

(ii) You may check your account on the 5th Market Day from the balloting date.

(iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by MIH by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than ten (10) Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institutions will be informed of the unsuccessful or partially successful Applications within two (2) Market Days after the final balloting date. The Participating Financial Institutions will credit the Application monies or any part thereof (without interest) within two (2) Market Days after the receipt of confirmation from MIH.

12.10 SUCCESSFUL APPLICANTS

If you are successful in your application:

(i) Our IPO Shares allotted to you will be credited into your CDS account.

(ii) A notice of allotment will be despatched to you at your last address maintained with the Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.

(iii) In accordance with section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as Prescribed Securities. As such, our IPO Shares issued/offered through our Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the SICDA and Rules of Bursa Depository.

(iv) In accordance with section 29 of the SICDA, all dealings in our IPO Shares will be by book entries through CDS accounts. No physical share certificates will be issued to you and you shall not be entitled to withdraw any deposited securities held jointly with Bursa Depository or its nominee as long as our Shares are listed on Bursa Securities.

12.11 ENQUIRIES

Enquiries in respect of the applications may be directed as follows:

Mode of application	Parties to direct the enquiries
Application Form	MIH Enquiry Services Telephone at telephone no. 03-7890 4700
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

You may also check the status of your Application by calling your respective ADA during office hours at the telephone number as set out in the Detailed Procedures for Application and Acceptance accompanying the electronic copy of our Prospectus on the website of Bursa Securities.

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HPP HOLDINGS BERHAD

Registration No: 201801043588 (1305620-D)
(Incorporated in Malaysia)

Unaudited Condensed Combined Interim Financial Report for the First Quarter Ended 31 August 2020

HPP Holdings Berhad
Registration No: 201801043588 (1305620-D)
(Incorporated in Malaysia)

Unaudited condensed combined statement of financial position as at 31 August 2020

	Unaudited As at 31 August 2020 RM'000	Audited As at 31 May 2020 RM'000
ASSETS		
Non-Current Assets		
Property, plant and equipment	53,076	53,386
Current Assets		
Inventories	8,717	8,977
Trade receivables	27,289	17,024
Other receivables	1,313	522
Tax recoverable	533	747
Fixed deposits with licensed banks	10,281	11,033
Cash and bank balances	14,713	13,974
Total Current Assets	**62,846**	**52,277**
Total Assets	**115,922**	**105,663**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	5,500	5,500
Retained earnings	65,638	61,888
Total equity attributable to owners of the Company	71,138	67,388
Non-controlling interest	2,004	1,926
Total Equity	**73,142**	**69,314**
LIABILITIES		
Non-Current Liabilities		
Borrowings	19,547	17,684
Deferred tax liabilities	5,499	5,499
Total Non-Current Liabilities	**25,046**	**23,183**
Current Liabilities		
Borrowings	3,648	4,410
Lease liability	142	193
Trade payables	10,724	6,659
Other payables	2,845	1,893
Amounts due to Directors	-	11
Tax payable	375	-
Total Current Liabilities	**17,734**	**13,166**
Total Liabilities	**42,780**	**36,349**
Total Equity And Liabilities	**115,922**	**105,663**

The Unaudited Condensed Combined Statement of Financial Position should be read in conjunction with the Accountants' Report dated 1 December 2020 to be included in the Prospectus and the accompanying explanatory notes attached to the condensed combined interim financial report.

Unaudited condensed combined statement of profit or loss and other comprehensive income for the first quarter ended 31 August 2020

	Unaudited Individual / Cumulative quarter ended 31 August	
	2020	**2019**
	RM'000	**RM'000**
Revenue	26,694	28,617
Cost of sales	(20,015)	(21,867)
Gross Profit ("GP")	**6,679**	**6,750**
Other income	586	275
Administrative expenses	(1,938)	(1,781)
Profit from operations	5,327	5,244
Finance costs	(263)	(265)
Profit before tax ("PBT")	**5,064**	**4,979**
Income tax expenses	(1,236)	(1,210)
Profit and total comprehensive income for the financial period	**3,828**	**3,769**
Profit and total comprehensive income for the financial period attributable to:		
- Owners of the Company	3,750	3,755
- Non-controlling interests	78	14
	3,828	3,769
Earnings per ordinary share (RM)	3,750	3,755

The Unaudited Condensed Combined Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Accountants' Report dated 1 December 2020 to be included in the Prospectus and the accompanying explanatory notes attached to the condensed combined interim financial report.

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ANNEXURE A: UNAUDITED CONDENSED COMBINED INTERIM FINANCIAL REPORT FOR THE FIRST QUARTER ENDED 31 AUGUST 2020 *(CONT'D)*

Unaudited condensed combined statement of changes in equity for the first quarter ended 31 August 2020

	← Attributable to owners of the Company →				
	Non-distributable	Distributable			
	Share capital RM'000	Retained earnings RM'000	Total RM'000	Non-controlling interests RM'000	Total equity RM'000
Unaudited					
As at 1 June 2020	**5,500**	61,888	67,388	1,926	69,314
Profit and total comprehensive income for the financial period	-	3,750	3,750	78	3,828
As at 31 August 2020	**5,500**	**65,638**	**71,138**	**2,004**	**73,142**
Unaudited					
As at 1 June 2019	**5,500**	53,655	59,155	903	60,058
Profit and total comprehensive income for the financial period	-	3,755	3,755	14	3,769
As at 31 August 2019	**5,500**	**57,410**	**62,910**	**917**	**63,827**

The Unaudited Condensed Combined Statement of Changes in Equity should be read in conjunction with the Accountants' Report dated 1 December 2020 to be included in the Prospectus and the accompanying explanatory notes attached to the condensed combined interim financial report.

Unaudited condensed combined statement of cash flows for the first quarter ended 31 August 2020

	Unaudited Quarter ended 31 August	
	2020	**2019**
	RM'000	**RM'000**
Cash flows from operating activities		
Profit before tax	5,064	4,979
Adjustment for:		
Depreciation of property, plant and equipment	1,021	773
Finance costs:		
- Hire purchase liabilities	5	5
- Term loans	255	260
- Lease liability	3	-
Interest income	(52)	(31)
Realised gain on foreign exchange	(5)	(20)
Unrealised gain on foreign exchange	(29)	(26)
Operating profit before working capital changes	**6,262**	**5,940**
Change in working capital:		
Inventories	260	212
Receivables	(11,105)	(6,972)
Payables	4,885	5,978
Amount due to Directors	(11)	-
Cash generated from operations	**291**	**5,158**
Interest paid	(3)	(265)
Interest received	52	30
Tax paid	(648)	(1,289)
Tax refunded	-	65
Net cash (used in) / generated from operating activities	**(308)**	**3,699**
Cash flows from investing activities		
Purchase of property, plant and equipment	(525)	(276)
Net cash (used in) / generate from investing activities	**(525)**	**(276)**
Cash flow from financing activities		
Drawdown of bank borrowing	1,000	-
Repayments of borrowing	(158)	(1,108)
Repayment of lease liability	(51)	-
Repayment of amount due to Directors	-	(360)
Repayment of amount due to Shareholders	-	(80)
Net cash generated from / (used in) financing activities	**791**	**(1,548)**
Net increase in cash and cash equivalents	(42)	953
Net increase in cash and cash equivalents at the beginning of the financial period	25,007	20,314
Effect of exchange rate changes on cash and cash equivalents	29	5
Cash and cash equivalents at the end of the financial period	**24,994**	**21,272**

Unaudited condensed combined statement of cash flows for the first quarter ended 31 August 2020 (continued)

(i) Cash and cash equivalents

Cash and cash equivalents included in the combined statement of cash flows comprise the following combined statement of financial position amounts:

	Unaudited Quarter ended 31 August	
	2020 RM'000	**2019 RM'000**
Cash and cash balances	14,713	18,080
Fixed deposits with licensed banks	10,281	3,192
	24,994	21,272
Fixed deposits pledged as security	(1,200)	(1,167)
	23,794	**20,105**

(ii) Acquisition of property, plant and equipment

During the financial period, the Group acquired property, plant and equipment as follows:

	Unaudited Quarter ended 31 August	
	2020 RM'000	**2019 RM'000**
Paid in cash	394	276
Deposits paid in prior financial year capitalised in current financial period	55	39
Balances remained unpaid at financial period end	262	883
	711	**1,198**

During the financial period, the Group paid the remaining outstanding amounts in relation to property, plant and equipment acquired in the previous financial year of RM131,085 (31 August 2019: nil)

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ANNEXURE A: UNAUDITED CONDENSED COMBINED INTERIM FINANCIAL REPORT FOR THE FIRST QUARTER ENDED 31 AUGUST 2020 *(CONT'D)*

(iii) Reconciliation of movement of liabilities to cash flows arising from financing activities

	Unaudited				
	At 1 June 2020 RM'000	**Payments RM'000**	**Interest accrued RM'000**	**Acquisition of new lease RM'000**	**At 31 August 2020 RM'000**
Term loans	21,848	[(i)](158)	[(ii)]254	1,000	22,944
Hire purchase liabilities	246	-	[(ii)]5	-	251
Lease liabilities	193	[(i)](51)	-	-	142
	22,287	**(209)**	**259**	**1,000**	**23,337**

	Unaudited				
	At 1 June 2019 RM'000	**Payments RM'000**	**Interest accrued RM'000**	**Acquisition of new lease RM'000**	**At 31 August 2019 RM'000**
Term loans	19,940	(1,055)	-	-	18,885
Hire purchase liabilities	422	(53)	-	-	369
Lease liabilities	-	-	-	-	-
	20,362	**(1,108)**	**-**	**-**	**19,254**

Notes:

(i) Represent net payment of principal amount after deducting the interest.

(ii) The subsidiaries of HPP Holdings Berhad have been granted a 6-month automatic moratorium which ended on 30 September 2020. Term loan interest and hire purchase interest during the current financial quarter under review had been accrued.

The Unaudited Condensed Combined Statement of Cash Flows should be read in conjunction with the Accountants' Report dated 1 December 2020 to be included in the Prospectus and the accompanying explanatory notes attached to the condensed combined interim financial report.

HPP Holdings Berhad
Registration No: 201801043588 (1305620-D)
(Incorporated in Malaysia)

PART A - EXPLANATORY NOTES PURSUANT TO MFRS 134

A1. Basis of preparation

The condensed combined interim financial report is unaudited and have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS") 134 *Interim Financial Reporting* and Paragraph 9.22 and Appendix 9B of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Listing Requirements").

The condensed combined interim financial report of HPP Holdings Berhad ("the Company") and its subsidiaries ("the Group") has been prepared as if the Group operated as a single economic entity throughout the financial periods under review.

The condensed combined interim financial report should be read in conjunction with the Accountants' Report dated 1 December 2020 to be included in the Prospectus and the accompanying explanatory notes attached to the condensed combined interim financial report. The explanatory notes attached to the condensed combined interim financial report provide an explanation of events and transactions that are significant to the understanding of the changes in the financial position and performance of the Group since the financial year ended 31 May 2020.

The condensed combined interim financial report has been prepared on the historical cost basis and on the assumption that the Group is a going concern.

The ability of the Group to continue as a going concern is dependent on the Group's ability to generate positive cash flows. The Group did generate a negative cash flow for the period ended 31 August 2020 as it generated increased revenue in this period that were not matched by cash inflows (as the trade receivables for the increased revenue were not yet due for collection). The increased revenue in this period, as compared to the financial period ended 31 May 2020, had contributed to an increase in trade receivables.

The increase in trade receivables was mainly due to the following:

(i) increase in orders from one of the Group's direct major customers in Consumer E&E industry who has been granted 90 day's credit period as compared to an earlier credit term of 60 days when they were an indirect customer of Hayan Group prior to financial year ending 31 May 2021. The trade receivables due from this customer as at 31 August 2020 amounted to approximately RM3.90 million; and

(ii) The credit terms granted to Karex group of companies of 90 days. The trade receivables due from Karex group of companies as at 31 August 2020 amounted to approximately RM10.12 million.

Further, Hayan Group had been paying its suppliers earlier than the 90 days' credit term granted by its suppliers.

The abovementioned negative cash flow for the financial period ended 31 August 2020 is expected to be temporary and should reverse with the collection of the outstanding trade receivables in the future.

Premised on the above, the Directors are of the opinion that the Group is able to continue as a going concern despite its negative operating cash flow as the Group will be able to continue to generate net cash inflows from its operating activities for a period of 12 months from the date this condensed combined interim financial report was approved and to enable it to meet its financial obligations as and when they fall due. In addition, the Group has sufficient unutilised banking facilities of approximately RM8.74 million available for future use should the need arise.

A2. Significant accounting policies

Except as described below, the same accounting policies and methods of computation are followed in this condensed combined interim financial report as compared with the audited combined financial statements for the financial years ended 31 May 2018, 2019 and 2020. The Group has also considered the new accounting pronouncements in the preparation of the financial statements.

(i) Accounting pronouncements that are effective and adopted during the financial year

Amendments to MFRS 3	Definition of a Business
Amendments to MFRS 9 and MFRS 7	Interest Rate Benchmark Reform
Amendments to MFRS 101 and MFRS 108	Definition of Material
Amendments to References to the Conceptual Framework in MFRSs	

(ii) Accounting pronouncements that are issued but not yet effective and have not been early adopted

The Group has not adopted the following accounting pronouncements that have been issued as at the date of authorisation of these financial statements but are not yet effective for the Group:

Effective for financial periods beginning on or after 1 June 2020

Amendments to MFRS 16	Covid-19 - Related Rent Concessions

Effective for financial periods beginning on or after 1 January 2021

Amendments to MFRS 9, MFRS 7 MFRS 4 and MFRS 16	Interest Rate Benchmark Reform - Phase 2

Effective for financial periods beginning on or after 1 January 2022

Amendments to MFRS 3	Reference to the Conceptual Framework
Amendments to MFRS 116	Property, Plant and Equipment - Proceeds before Intended Use
Amendments to MFRS 137	Onerous Contracts - Cost of Fulfilling a Contract
Annual Improvements to MFRSs 2018 - 2020	

Effective for financial periods beginning on or after 1 January 2023

Amendments to MFRS 4	Insurance Contracts (Extension of the Temporary Exemption from Applying MFRS 9)
MFRS 17	Insurance Contracts
Amendments to MFRS 17	Insurance Contracts
Amendments to MFRS 101	Classification of Liabilities as Current or Non-Current

Effective date to be announced

Amendments to MFRS 10 and MFRS 128	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

A3. Auditors' report

There was no qualified audit report issued by the auditors in the audited combined financial statements for the financial years ended ("FYE") 31 May 2018, 31 May 2019 and 31 May 2020.

A4. Seasonal or cyclical factors

The nature of the Group's business was not subject to any significant seasonal and cyclical factors.

A5. Exceptional items

There were no material exceptional items during the current financial quarter under review.

A6. Material changes in accounting estimates

There were no material changes in accounting estimates for the current financial quarter under review.

A7. Material events subsequent to the statement of financial position date

Saved as disclosed in Note B6 "Status of corporate proposals announced", there were no other material events subsequent to the end of the current financial quarter under review that have not been reflected in the interim financial report.

A8. Changes in the composition of the Group

There were no changes in the composition of the Group for the current financial quarter under review except for those disclosed in Note B6.

A9. Capital commitments

Outstanding capital commitments at financial position date not provided for at the end of each reporting period are as follows:

	Unaudited As at 31 August 2020 RM'000	Audited As at 31 May 2020 RM'000
Approved and contracted for:		
Property, plant and equipment	(i)5,439	131
Balance committed for initial public offering expenses	2,023	2,023

Note:

(i) This relates to the acquisition of a standard format printing machine which the Company has paid cash deposits of approximately RM0.60 million in August 2020. This new standard format printing machine will cost JPY153.00 million (equivalent to approximately RM6.04 million based on the actual exchange rate of RM3.95: JPY100 on the transaction date). The remaining balance of approximately RM5.44 million will be funded via the proceeds raised from the Public Issue as detailed in Section 2.7.1 of the Prospectus. In the event of any potential delay in the Listing, Hayan Group will draw down a term loan to pay for the said remaining balance ("**Bridging Loan**") and upon receipt of the proceeds raised from the Public Issue, the amount allocated for the acquisition of this standard format printing machine will be utilised to repay the Bridging Loan.

A10. Debt and equity securities

There were no other issuance, cancellations, repurchases, resale and repayments of debt and equity securities for the current financial quarter under review, except as disclosed in Note B7.

A11. Dividends paid

There were no dividends paid during the current financial quarter under review.

A12. Segment information

For internal management purposes, the Group is organised into business units based on its products and services, and has four reportable operating segments as follows:

Corrugated packaging	Printing and production of corrugated packaging
Non-corrugated packaging	Printing and production of non-corrugated packaging
Rigid box	Trading and production of rigid boxes
Others	Printing and production of brochures, leaflets, labels and paper bags

Except as indicated above, no other operating segments has been aggregated to form the above reportable operating segments.

The management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segmental performance is evaluated based on operating profit or loss. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

The segment revenue based on products is as follows:

	Unaudited Individual quarter ended 31 August	
	2020	**2019**
	RM'000	**RM'000**
Product		
Corrugated packaging	7,960	8,339
Non-corrugated packaging	9,057	8,111
Rigid box		
– Trading	8,404	10,721
– Production	1	139
Others (brochure, leaflet, label, paper bag)	1,272	1,307
Total	**26,694**	**28,617**

A13. Valuations of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

A14. Contingencies

There were no contingent assets and contingent liabilities as at the date of this condensed combined interim financial report.

A15. Related party transactions

Identity of related parties

For the purposes of this condensed combined interim financial report, 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 operating decisions, or vice versa, or where the Group and the parties are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Group has related party relationship with its shareholders, related parties and key senior management. Related parties refer to companies in which Directors have substantial financial interests and/or are also Directors of the companies.

Related party transactions

The related party transactions of the Group are as follows:

	Unaudited Individual quarter ended 31 August 2020 RM'000	2019 RM'000
Transactions		
A. Directors/ substantial shareholders		
Hostel rental	13	-
Purchase of sub-printing, binding and folding services	7	3
B. Key senior management		
Insurance expenses	171	74

A16. Fair value information

The carrying amounts of cash and cash equivalents, short-term receivables and payables reasonably approximate their fair values due to the relatively short-term nature of these financial instruments and insignificant impact of discounting.

The carrying amounts of long-term floating rate borrowings approximate their fair value as the borrowings will be repriced to market interest rate on or near reporting date.

There was no gain or loss arising from fair value changes of the Group's financial liabilities for the current quarter and financial period under review.

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PART B - EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS

B1. Financial performance

For the year-to-date ended 31 August 2020

	Unaudited Individual quarter ended 31 August		
	2020 RM'000	**2019 RM'000**	**Variance %**
Revenue	26,694	28,617	(6.72)
GP	6,679	6,750	(1.05)
PBT	5,064	4,979	1.71

The Group reported revenue of RM26.69 million for the three-month financial period ended 31 August 2020 ("Q1 2021"). This represented a decline in revenue of approximately 6.72% against its revenue for the three-month financial period ended 31 August 2019 ("Q1 2020") of approximately RM28.62 million. The decrease was mainly due to decrease in orders from the Group's major customers in the Consumer electrical and electronics and food and beverage industries.

The GP of RM6.68 million for the Q1 2021 was similar to the GP of RM6.75 million for the Q1 2020. The Group recorded a GP margin of 25.02% for the Q1 2021 as compared to a GP margin of 23.59% for the Q1 2020. The increase in GP margin was mainly due to the decrease in revenue from trading of rigid boxes which yielded lower GP margin coupled with the increase in revenue from non-corrugated packaging which yielded higher GP margin.

The Group recorded PBT of RM5.06 million for the Q1 2021, representing a slight increase of approximately 1.71% against the PBT of RM4.98 million for the Q1 2020. The increase was mainly due to an increase in other income (the receipt of government subsidy as part of the initiatives under the Economic Stimulus Package).

The Group's reported net assets of RM71.14 million as at 31 August 2020 as compared to RM62.91 million as at 31 August 2019. The increase in net assets was mainly due to increase in trade receivables (as explained below) and retained earnings.

The Group recorded a negative operating cash flow for the Q1 2021. The negative operating cash flow position was due to increase in trade receivables which was in line with the increase in the Group's revenue subsequent to the FYE 31 May 2020.

The increase in trade receivables was mainly due to the following:

(i) increase in orders from one of the Group's direct major customers in Consumer E&E industry who has been granted 90 day's credit period as compared to an earlier credit term of 60 days when they were an indirect customer of Hayan Group prior to financial year ending 31 May 2021. The trade receivables due from this customer as at 31 August 2020 amounted to approximately RM3.90 million; and

(ii) The credit terms granted to Karex group of companies of 90 days. The trade receivables due from Karex group of companies as at 31 August 2020 amounted to RM10.12 million.

Further, Hayan Group had been paying its suppliers earlier than the 90 days' credit term granted by its suppliers.

The abovementioned negative cash flow for the financial period ended 31 August 2020 is expected to be temporary and should reverse with the collection of the outstanding trade receivables in the future.

B2. Variation of results against preceding quarter

	Unaudited As at 31 August 2020 RM'000	Unaudited As at 31 May 2020 RM'000	Variance %
Revenue	26,694	15,604	71.07
GP	6,679	2,293	191.28
PBT	5,064	281	1,702.14

The increase in revenue of approximately 71.07% for the financial period ended ("FPE") 31 August 2020 against its revenue for the FPE 31 May 2020 was mainly due to the resumption of full operations since 29 April 2020, following the announcement by MITI that economic sectors which were allowed to operate during the Movement Control Order ("MCO") period are allowed to resume operations at full capacity starting from 29 April 2020. The Group temporarily ceased it operations from 18 March 2020 in view of the MCO. However, Hayan Prints (M) Sdn Bhd ("Hayan Prints") and Envy Premium Box Supplies Sdn Bhd resumed operations on a reduced capacity basis on 30 March 2020 and 20 April 2020.

In line with the increase in revenue for the FPE 31 August 2020, the GP for the FPE 31 August 2020 had increased by 191.28% to RM6.68 million as compared to GP for the FPE 31 May 2020 of RM2.29 million. The Group continued to incur fixed expenses such as labour cost, factory overheads during the temporary cessation of its operations. This had resulted in a lower GP margin in the FPE 31 May 2020.

The increase in PBT for the FPE 31 August 2020 as compared to PBT for the FPE 31 May 2020 was mainly due to the increase in revenue as the Group had fully resumed operations as elaborated above.

The Group's reported combined net assets of RM71.14 million as at 31 August 2020 as compared to RM67.39 million as at 31 May 2020 as the Group continued to record positive earnings. In addition, the Coronavirus 2019 ("COVID-19") pandemic has not resulted in any material impairment to its assets (including inventories or receivables) for the FPE 31 August 2020 or affected the Group's ability to continue its business as a going-concern.

B3. Commentary on prospects

Starting from the financial year ending ("FYE") 2021 onwards, Group of Companies D and/or its contract manufacturers will place orders of paper-based packaging with the Group directly (i.e. without going through Group of Companies A). The Group expects Group of Companies D to contribute significantly to its revenue and that it will be dependent on Group of Companies D as one of its major customers for the FYE 2021.

In addition, for the FYE 2021, the Group also expects its long-term customer - Karex group of companies to continue to contribute significantly to its revenue.

The Group expects the delivery of a new standard format printing machine in the first quarter of 2021. This new standard format printing machine will replace one of its existing standard format printing machines which is 10 years in age. The new standard format printing machine is expected to improve printing quality and colour accuracy, reduce printing defects and wastage and will automate blanket cleaning, amongst others.

The Group intends to expand its rigid box business by acquiring an additional rigid box production line during 2021. This will double the Group's production capacity and allow the Group to secure more rigid box production orders which would enable the Group to grow its sources of revenue and improve the Group's financial performance moving forward.

Moving forward, the Group also intends to expand its reach to a wider customer base in both the local and overseas markets by participating in local and overseas tradeshows and exhibitions. The demand for packaging printing globally is expected to be supported by demand for consumer goods including, amongst others, Consumer E&E, food and beverages and pharmaceuticals. This is because packaging plays a significant role in the preservation and protection from physical damage of consumer products, and it is also used to provide aesthetic and branding appeal. As such, the Group sees opportunities to grow and expand its paper-based packaging printing business in these sectors overseas.

In response to the COVID-19 pandemic, the Group has and will continue to implement various precautionary measures at its factories and offices to minimise the risk of COVID-19 infections and to ensure compliance with the standard operating procedures imposed by the Government. The Group has no specific plans that are required to be implemented to ensure continuity and sustainability of its business or to address the impact of the COVID-19 pandemic. Nonetheless, the Board of Directors ("Board") will continue to monitor the developments arising from the COVID-19 pandemic and will adopt the necessary strategies to mitigate any potential risks and/or seize the opportunities arising therefrom.

Based on the above, the Group's Directors are of the opinion that the Group's prospects for the financial year ending 31 May 2021 remains favourable.

B4. Profit forecast

Not applicable as the Group does not publish any profit forecast.

B5. Tax expense

Tax expense comprises the following:

	Unaudited Individual quarter ended 31 August	
	2020	**2019**
	RM'000	**RM'000**
Recognised in profit or loss		
Current tax expense		
Current financial period	1,236	1,210
Deferred tax expense		
Current financial period	-	-
	1,236	1,210
Effective tax rate (%)	24.41	24.30

The overall effective tax rate for current financial quarter under review was higher than the statutory tax rate of 24% due to non-deductible expenses incurred during the financial period.

B6. Status of corporate proposals announced

Pre-IPO Exercise

As part of the IPO reorganisation, the Company had on 11 November 2019 entered into 2 conditional share sale agreements ("SSAs") to acquire the entire issued share capital of Hayan Prints (M) Sdn Bhd and Hayan Packaging Sdn Bhd ("Hayan Packaging") respectively ("Acquisitions") as detailed below:

	Consideration	
Company	**Number of shares issued**	**RM**
Hayan Prints	269,755,000	53,951,000
Hayan Packaging	30,005,000	6,001,000
Total	**299,760,000**	**59,952,000**

The SSAs were supplemented by a letter dated 7 August 2020 to the vendors of Hayan Prints and Hayan Packaging, respectively to extend the conditional period to 31 January 2021 to fulfil the conditions precedent for the SSAs. Subsequently, the SSAs were completed on 30 November 2020.

IPO

On 29 November 2019, the Company submitted the relevant application to the Securities Commission Malaysia ("SC") and Bursa Securities in relation to proposed initial offering of 88,669,000 ordinary shares of the Company ("IPO"), and the proposed listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Securities ("Listing"). The total enlarged issued share capital of the Company subsequent to the IPO will be 388,430,000 ordinary shares.

Bursa Securities has, vide its letter dated 17 November 2020, approved the Company's admission to the Official List and the listing of and quotation for its entire enlarged issued share capital on the ACE Market of Bursa Securities, subject to certain conditions as set out in the Approvals and Conditions section of the Prospectus.

The Listing is an exempt transaction under Section 212(8) of the Capital Markets and Services Act, 2007 and is therefore not subject to the approval of the SC. The SC has, vide its letter dated 19 November 2020, approved the resultant equity structure of the Company under the equity requirement for public listed companies pursuant to the Group's Listing, subject to the Company allocating shares equivalent to at least 12.5% of its enlarged number of issued shares at the point of listing to Bumiputera investors. This includes the shares offered to Malaysian public via balloting, of which at least 50% are to be offered to Bumiputera public investors.

Ministry of International Trade and Industry had stated that it has taken note of and has no objection to the Listing vide its letter dated 14 January 2020.

The IPO and Listing are pending completion.

B7. Loans and borrowings

Particulars of the Group's loans and borrowings are as follows:

	Note	Unaudited As at 31 August 2020 RM'000	Audited As at 31 May 2020 RM'000
Non-current			
Term loans – secured		19,441	17,577
Hire purchase liabilities	B7.1	106	107
		19,547	**17,684**
Current			
Term loans – secured		3,503	4,271
Hire purchase liabilities	B7.1	145	139
		3,648	**4,410**
		23,195	**22,094**

B7.1 Hire purchase liabilities

Hire purchase liabilities are payable as follows:

	Future minimum lease payments RM'000	Interest RM'000	Present value of future minimum lease payments RM'000
Unaudited			
31 August 2020			
Less than one year	149	4	145
Between one to five years	108	2	106
	257	**6**	**251**
Audited			
31 May 2020			
Less than one year	149	10	139
Between one to five years	108	2	107
	257	**12**	**246**

All the bank borrowings of the Group are denominated in RM as at 31 August 2020.

B8. Material litigation

There are no material litigations as at the date of this report.

B9. Dividends

The Board does not recommend any dividend for the current financial quarter under review.

B10. Earnings per ordinary share

The calculation of earnings per ordinary share at 31 August 2019 and 2020, was based on the profit attributable to ordinary shareholders and weighted number of ordinary shares outstanding calculated as follows:

	Unaudited Individual quarter ended 31 August 2020 RM'000	Unaudited Individual quarter ended 31 August 2019 RM'000
Profit for the financial period attributable to owners of the Company (RM'000)	3,750	3,755
Earnings per ordinary share attributable to owners of the Company		
Based on ordinary shares of the Company:		
Number of ordinary shares (000)	1	1
Earnings per ordinary share (RM'000)	3,750	3,755
Based on enlarged ordinary shares in issue after:		
Pre-IPO Exercise and IPO:		
Number of ordinary shares (000)	388,430	388,430
Earnings per ordinary share (sen) (For illustrative purpose only)	0.97	0.97

Save as disclosed in Note B6 "Status of corporate proposal announced", the Company has no potential ordinary shares in issue as at the date of the statement of financial position. Diluted earnings per share is equal to basic earnings per share.

B11. Trade and other receivables

	Unaudited As at 31 August 2020 RM'000	Audited As at 31 May 2020 RM'000
Current		
Trade		
Trade receivables	27,371	17,106
Less: Impairment loss	(82)	(82)
	27,289	**17,024**
Non-trade		
Other receivables	160	301
Deposits	1,153	221
	1,313	**522**
	28,602	**17,546**

(a) Ageing analysis of trade receivables

	Unaudited As at 31 August 2020 RM'000	Audited As at 31 May 2020 RM'000
0 – 90 days	25,646	9,998
91 – 120 days	1,350	2,952
121 – 180 days	253	2,215
More than 180 days	40	1,859
	27,289	**17,024**

B12. Profit before tax

	Note	Unaudited Individual quarter ended 31 August 2020 RM'000	2019 RM'000
Material expenses/(income)			
Auditor's remuneration:			
- current year		15	15
Depreciation of property, plant and equipment		1,021	773
Directors' remuneration:			
- Directors' fee		78	47
- Salaries, wages, allowances and bonus		187	175
- Contributions to defined contribution plan		35	33
Finance costs:			
- Hire purchase liabilities		5	5
- Term loans		255	260
- Lease liability		3	-
Interest income		(52)	(31)
Realised (gain) on foreign exchange		(5)	(20)
Rental expenses/Short-term lease rental:			
- Equipment		11	11
- Factory		-	138
- Hostel		16	14
Rental income		(8)	(70)
ROU assets:			
- Lease of low value assets	(i)	-	-
Staff costs:			
- Salaries, wages, allowances and bonus		2,211	1,938
- Contributions to defined contribution plan		198	164
- Contributions to social security		29	23
Unrealised gain on foreign exchange		(29)	(26)

Note:

(i) The Group has applied the following practical expedients under MFRS 16:

- No adjustments are made on transition for leases for which the underlying assets are of low value; and

- The Group does not apply the standard to leases which lease terms end within 12 months from 1 June 2020.

The Group did not report any other income including investment income, provision for and write off of receivables, provision for and write off of inventories, gain or loss on disposal of quoted or unquoted investments or properties, impairment of assets and gain or loss on derivatives for the financial period under review.

B13. Utilisation of proceeds

The proposed utilisation of proceeds from the IPO of RM31.92 million is as follows:

Details of utilisation	**Amount RM'000**	**%**	**Intended timeframe for utilisation upon listing**
Capital expenditure and expansion	13,031	40.82	Within 24 months
Repayment of bank borrowings	7,783	24.38	Within 12 months
Working capital	5,207	16.31	Within 24 months
Sales and marketing expenses	2,000	6.27	Within 36 months
Estimated listing expenses	3,900	12.22	Within 3 months
Total	31,921	100.00	

The proposed utilisation of the proceeds as disclosed above should be read in conjunction with the prospectus of the Company dated 15 December 2020. As at the date of this condensed combined interim financial report, the IPO and Listing are pending completion, and therefore, the proceeds have yet to be raised and utilised.

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