# 8. RISK FACTORS

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

## 8.1 RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS

### 8.1.1 Our business and operations were halted by the outbreak of the Covid-19 virus

On 11 March 2020, the Covid-19 virus, also known as the novel coronavirus, was declared a worldwide pandemic by the World Health Organisation. Our business and operations are impacted by precautionary measures taken by the Government of Malaysia, particularly the imposition of the MCO.

In view of the imposition of the MCO, our operations were fully halted between 18 March 2020 and 20 April 2020. During this period, we incurred an estimated total expense of RM0.50 million. Our Group had, on 20 April 2020, obtained an approval letter from MITI to operate our business. As such, we resumed operations on 21 April 2020 but at a capacity of 50% of our Group's total workforce as per the standard operating procedures set out by MITI, until 3 May 2020. At the same time, the delivery of our subcontracted works was also affected as our subcontractors were not operating or were operating at reduced capacity during this period. Additional details on our subcontractors' operations are set out in Section 6.7.4.

While our subcontractors and our operations resumed at full capacity on 4 May 2020, we were unable to resume works immediately at some of our customers' premises before our customers complete the setup of preventive measures and procedures to prevent the spread of Covid-19 virus at their premises, as required by the Government of Malaysia. This delay had delayed our project delivery schedules and billing schedules for some of our existing projects in the second and third quarter of 2020. Nevertheless, we have completed the scheduled deliveries of these projects by the fourth quarter of 2020 and thus, it did not affect our billing schedule for these projects for the FYE 2020. Hence, there was no material adverse impact to our financial performance for the financial year ending 31 December 2020 as a result of the MCO, conditional MCO and recovery MCO resulting from the delay in resuming work at some of our customers' premises.

In December 2020, 2 of our key senior management were both tested positive for Covid-19 and were absent from work for approximately 2 weeks, which was the period in which they were sent to the designated hospital and quarantine centre. Additional details on this incident are set out in Section 6.7.4(e)(i). Notwithstanding that our Group is dependent on our key senior management as set out in Section 8.1.7, our operations were not affected during their absence as they were tested positive with mild symptoms whereby they were still able to carry out management duties during the quarantine periods through tele- and video-conferencing. Save for the testing costs and disinfection costs which amounted to RM0.02 million, there was no impact to our business and operations.

On 29 January 2021, 7 of our foreign workers involved in installation and commissioning works at our customer's site were notified that they were close contacts of an outbreak at the customer's site. These 7 foreign workers underwent Covid-19 tests immediately on the same day, and 3 out of the 7 foreign workers were confirmed to be positive on 30 January 2021. The 3 foreign workers who were tested positive had been quarantined and isolated from other foreign workers at their dormitories before they were sent to the designated quarantine centre on 3 February 2021 and were subsequently discharged on 8 February 2021; whereas the remaining 4 foreign workers who were tested negative had been quarantined at their dormitories and with their health conditions observed regularly until 4 February 2021 when 1 of them developed mild symptoms. Following which, the 4 remaining foreign workers underwent Covid-19 tests immediately, and 3 of them were confirmed to be positive on 5 February 2021. These 3 foreign workers had been quarantined and isolated from other foreign workers at their dormitories before they were sent to the designated quarantine centre on 10 February 2021 and were subsequently discharged on 13 February 2021; whereas the remaining 1 foreign worker who was tested negative has been quarantined at his dormitory and with his health condition observed regularly until 19 February 2021. Additional details on this incident are set out in Section 6.7.4(e)(ii). Save for the testing costs and estimated disinfection costs which amounted to RM0.02 million, there was no further impact to our business and operations.

In Thailand, the government has also declared an Emergency Situation involving nationwide curfews and travel bans, as well as control measures for businesses to observe, effective from 26 March 2020 to 28 February 2021. Although factories in Thailand are allowed to operate during the period of the Emergency Situation, Flexidynamic Thailand is required to comply with the control measures issued by the Ministry of Industry, Thailand. Any changes to the Emergency Situation policy which may lead to disruptions to our business operations will affect our ability to fulfil the delivery of projects and to secure new projects. Thus, it may eventually affect our financial performance adversely.

Notwithstanding that our Group had undertaken necessary precautionary measures and steps in response to the Covid-19 situation, there can be no assurance that neither our workers nor the workers of our subcontractors will not be infected by the Covid-19 virus. Should all or a portion of our employees or our subcontractors' employees be quarantined as a result of potential infection, our business operations may be affected due to a temporary shortage of workers. Notwithstanding the above, as part of our business contingency plan, our foreign workers have been divided into project-based teams and each project-based team stays in separate dormitories. We have also undertaken measures to minimise interactions between each team of foreign workers by dividing our factory into several designated areas for each team of workers. In the event that any of our foreign workers are infected, the particular project-based teams of the infected foreign worker(s) will be quarantined and we may utilise foreign workers from other teams to overcome any manpower shortages.

Following the imposition of the second MCO in Selangor effective from 13 January 2021 to 4 March 2021, there has been no impact to our current operations, supply of raw materials and subcontracted services. Further, our Group does not foresee any impact on the above matters if the second MCO is extended further, given that the restrictions imposed remain. As such, our Group does not expect any impact to our financial performance for the financial year ending 2021 arising from the imposition of the second MCO. Nevertheless, should the the restrictions under the second MCO tighten which result in mandatory closure of our operations and/or the operations of our suppliers and subcontractors, there can be no assurance that our business operations will not be materially impacted and that we will be able to complete our projects in a timely manner. These disruptions to our business operations will in turn delay our project delivery schedule and our billing schedule, which may consequently result in adverse impact on our financial performance.

Additional details on interruptions to our business operations are set out in Section 6.7.4.

### 8.1.2 We are dependent on a few major customers who contribute substantially to our revenue

For the past 3 FYEs and FPE 2020, our major customers contributed between 77.60% and 86.75% of our revenue. Our major customers for the past 3 FYEs and FPE 2020 are as follows:

| No. | Major customers for the past 3 FYEs and FPE 2020 | Country |
|---|---|---|
| 1. | **Hartalega Group**<br>Hartalega Sdn Bhd, Hartalega NGC Sdn Bhd and Hartalega Research Sdn Bhd | Malaysia |
| 2. | **Kossan Group**<br>Kossan Latex Industries (M) Sdn Bhd, Ideal Quality Sdn Bhd, Perusahaan Getah Asas Sdn Bhd and Wear Safe (Malaysia) Sdn Bhd | Malaysia |
| 3. | **Riverstone Group**<br>Riverstone Resources Sdn Bhd and Eco Medi Glove Sdn Bhd | Malaysia |
| 4. | **Sri Trang Group**<br>Premier System Engineering Co Ltd, Sri Trang Gloves (Thailand) Co Ltd (previously known as Siam Sempermed Corp Ltd) and Sri Trang Gloves (Thailand) Public Co Ltd | Thailand |
| 5. | **YTY Group**<br>Green Prospect Sdn Bhd and YTY Industry Sdn Bhd | Malaysia |
| 6. | Central Medicare Sdn Bhd | Malaysia |
| 7. | Ever Global (Vietnam) Enterprise Corporation | Vietnam |

Additional information on our major customers is set out in Section 6.21.

All of the above customers are involved in the glove industry. The products and services sold to these customers comprise glove chlorination systems, process tanks, storage tanks, FRP lining services, scrubber systems and/or replacement parts.

Any loss of these major customers and our inability to replace these customers with new customers or with additional orders from existing customers in a timely manner, could result in a loss of revenue and will have an adverse impact on our financial performance. Further, even though we may be able to secure new customers, there is no assurance that we will be able to achieve the same level of sales value and maintain and/or improve our profit margins. If such adverse events occur, our financial performance will be adversely affected.

### 8.1.3 We rely on our subcontractors for the manufacturing of our products as well as parts and components of our products

Our Group is mainly involved in the design and engineering of glove chlorination systems, storage tanks, process tanks and scrubber systems for the glove industry. Most of the manufacturing works of our products are outsourced to our subcontractors, except for the manufacturing of off-line glove chlorination systems and centrifugal fans where we will manufacture in-house.

For the past 3 FYEs and FPE 2020, we have only outsourced our manufacturing works to 4 subcontractors and total subcontractor fees engaged by us are between 16.69% and 33.80% of our total purchases. Our subcontractors are as follows:

| No. | Subcontractors | Services sourced |
|---|---|---|
| 1. | Pembinaan Kim Choi Sdn Bhd | Subcontracted manufacturing works for metal moulds and mild steel storage tanks |
| 2. | L & S Advance Sdn Bhd | Subcontracted manufacturing works for process tanks |
| 3. | CCK Engineering Sdn Bhd (formerly Chong Chee Keong, a sole proprietorship) | Subcontracted manufacturing works for metal moulds as well as long and cylindrical products |
| 4. | Fook Loong Engineering Founder Sdn Bhd (formerly Fook Loong Engineering, a sole proprietorship) | Subcontracted manufacturing works for long and cylindrical products |

Additional information on our subcontractors is set out in Section 6.22(a).

As we are accountable to our customers on the quality of our products and services, our Group will manage the overall project planning, management of subcontracted works, and the procurement of supplies. While our Group focuses on the design and engineering of these products, our subcontractors are engaged to carry out most of the manufacturing works. As such, we are dependent on our subcontractors to manufacture our products as well as parts and components while having to adhere to the project schedule. In the event the products manufactured by our subcontractors are not in accordance with our requirements, we are entitled to reject the products and require our subcontractors to rectify and/or re-manufacture those products at their cost and expense.

Notwithstanding the long term business relationships with our subcontractors, there are no formal agreements or contracts signed with these subcontractors, and engagements with our subcontractors are based on purchase orders. In the event where these subcontractors are not able to accept our purchase orders, we will need to engage other subcontractors to carry out such services. Any unsuccessful attempt to engage other subcontractors for the manufacturing works may result in delays in project deliverables, which will consequently affect our industry reputation. In addition, we may experience cost overruns due to having to engage new subcontractors at higher cost. Further, should our subcontractors face any disruptions to their business operations resulting in a delay in the manufacturing of our products, it may subsequently cause a delay to our project delivery schedule.

Save for the imposition of the MCO as set out in Section 8.1.1, in the past 3 FYEs, FPE 2020 and up to the LPD, we have not experienced any other major disruptions to our business operations as a result of our dependence on subcontractors. Nevertheless, there is no assurance that we will always be able to procure such manufacturing services in a timely manner for our future projects, that our financial performance and business operations will not be adversely affected due to need to change subcontractors, and that there will not be any delays in our project delivery caused by prolonged unexpected delays by our subcontractor to deliver the manufactured products to us.

### 8.1.4 We are subject to regulatory requirements for our business operations

Our business is subject to various laws, rules and regulations. Save for the Certificate for Accommodation (as set out below), we have obtained the necessary licences and approvals from various governmental authorities for our business, as set out in Section 6.18.

The licences and approvals are subject to compliance with relevant conditions, laws and regulations under which they were issued. In the event of non-compliance, these licences and approvals may be revoked or may not be renewed upon expiry. Similarly, any breach of these conditions, laws and regulations can result in penalties, fines, potential prosecution against us and/or our directors, restrictions on operations and/or remedial liabilities.

Pursuant to Section 24D(1) of the WMSHA 2019, no accommodation shall be provided to an employee unless certified with a Certificate for Accommodation. Our subsidiary, Flexidynamic Engineering provides such accommodation to our foreign workers at rented terrace houses located within the vicinities of Perak and Selangor. As such, the Certificate for Accommodation is required to be obtained by Flexidynamic Engineering. Section 24D(3) of the WMSHA 2019 provides that an employer who contravenes Section 24D(1) of the WMSHA 2019 commits an offence and shall, on conviction, be liable to a fine not exceeding RM50,000.

Flexidynamic Engineering had between 20 January 2021 and 21 January 2021 submitted 7 applications for the Certificate for Accommodation for the foreign workers' accommodation located within the vicinities of Perak (2 locations) and Selangor (5 locations) to the Department of Labour Peninsular Malaysia. As at the LPD, the issuance of Certificate for Accommodation is still pending.

If we fail to obtain the Certificate for Accommodation, on conviction, we shall be liable to a fine not exceeding RM50,000 for each location. In addition, our operations may be temporarily affected as we will be required to relocate our foreign workers to new accommodation locations.

### 8.1.5 We will continue to be exposed to existing business risks arising from manufacturing of products in-house, such as storage tanks, scrubber towers, chimneys and ductings

As part of our business expansion plan, our Group intends to enhance our manufacturing capability by undertaking the manufacturing of long and cylindrical products in-house, comprising storage tanks, scrubber towers, chimneys and ductings. Additional information on our business strategies and prospects is set out in Section 6.19.

Upon commencement of our in-house manufacturing of storage tanks, scrubber towers, chimneys and ductings, we will continue to be exposed to existing business risks such as shortage of raw materials, disruption in supply and/or other unforeseen risks. Any occurrence of such risks and/or other unforeseen circumstances may have a material adverse impact effect on our Group's operations and financial performance if we are unable to supply the products to our customers in a timely manner.

Further, our business expansion plan involves a number of cost-related risks, including but not limited to, increased depreciation charges, machinery maintenance costs and staff costs. The increase in such expenditures will consequently increase our Group's overall operational cost, including overhead costs and cost of goods sold, which may adversely affect our financial performance if we are unable to secure sufficient sales to cover for such increase in costs.

### 8.1.6 We are subject to the volatility in prices of our raw materials

While we outsource majority of the manufacturing works to our subcontractors, we purchase the required supplies for our subcontractors. The major supplies needed for the manufacturing works are raw materials such as plastic resins, FRP materials and PVC pipes and fittings; as well as monitoring and control instruments such as chlorination gas system, circulation pumps, gears and motors and control panel systems.

Raw materials constitute between 27.97% and 40.07% of our total purchases for the past 3 FYEs and FPE 2020 as follows:

| | FYE 2017 | | FYE 2018 | | FYE 2019 | | FPE 2020 | |
|---|---|---|---|---|---|---|---|---|
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| Raw materials | 7,432 | 39.26 | 13,017 | 40.07 | 10,419 | 31.51 | 7,178 | 27.97 |

Additional information on our purchases of raw materials is set out in Section 6.10.

The prices of certain raw materials such as plastic resins and mild steel are subject to fluctuations as a result of global demand and supply conditions. As such, any material increase in the prices of the abovementioned raw materials may result in substantial increase in our cost of sales, thus affecting our financial performance should we fail to pass the increase in cost to our customers. For the past 3 FYEs and FPE 2020, we had not encountered any substantial increase in raw materials prices that have had a material adverse impact on our financial performance which requires us to pass on the substantial increase in cost to our customers.

Further, our Group receives purchase orders on project basis and hence, we only purchase and store minimal raw materials in advance prior to confirmation of purchase orders. Thus, the cost involved in purchasing these raw materials is largely dependent on the market prices of supplies upon the confirmation of purchase orders.

### 8.1.7 We are dependent on our Executive Directors and key senior management for continued success and the loss of their continued services may affect our business

Our continued and future success largely depends on the continuing contribution of our Executive Directors and key senior management, namely Tan Kong Leong, Liew Heng Wei, Lion Suk Chin, Wong Feng Lung and Sin Kuo Wei, for the strategic direction, leadership, business planning and development, management and monitoring of the day-to-day business operations of our Group. Our Executive Directors and key senior management play a pivotal role in our day-to-day operations as well as charting, formulating and implementing strategies to drive the future growth of our Group. Further, having a team of strong Executive Directors and key senior management is vital to maintain the quality of our Group's products and services whilst retaining the business confidence of our customers.

The loss of any of our Executive Directors and key senior management, and our inability to find suitable replacements in a timely manner, may create an unfavourable or material impact on our Group's operations, and may eventually affect our ability to maintain and/or improve our business performances.

### 8.1.8 The lack of long-term contracts may result in the fluctuation of our Group's performance

We have not entered into any long-term contracts with our customers as our Group's sales are derived based on purchase orders whereby our customers will purchase our products/services on a project-to-project basis or on an as-needed basis. The lack of long-term contracts is mainly due to the nature of our business and the prevailing customer practices where the demand for our products and services are subject to our customers' needs as and when required, which could arise from our customers' decisions for the expansion of their glove manufacturing lines or replacement of worn out glove chlorination systems.

The absence of long-term contracts may result in the fluctuation of our Group's sales and result in uncertainties over our overall financial performance. While our Group continuously seeks to maintain and strengthen existing business relationships and establish relationships with new customers to expand our clientele base, any adverse economic conditions, or slowdowns in the glove manufacturing industry, may negatively impact our sales, which will subsequently result in a decline in our financial performance.

### 8.1.9 We are exposed to the risk that our R&D efforts may be unsuccessful in adapting to the latest requirement or technology for glove chlorination systems

Our business is susceptible to changes in technology. With the advancement of technology in the glove chlorination process focusing on, amongst others, enhancing efficiency and improving functionalities such as operational, cost and energy efficiency of our products and production speed of our glove chlorination systems, customers may request for glove chlorination systems with more advanced design and specifications from time to time. Although we continuously employ R&D efforts to improve our glove chlorination systems, there is no assurance that our R&D efforts in glove chlorination systems will be successful in adapting to the latest requirement or technology.

We compete with our competitors to design and develop glove chlorination systems with more advanced specifications when specified by customers. Should our competitors be ahead of us in developing such systems with more advanced specifications, we may lose business opportunities to our competitors, which could in turn adversely affect our financial performance.

### 8.1.10 We may be adversely affected by product defects, and this may lead to liability claims and may result in negative perception towards our products and/or our Group

Our glove chlorination systems, as with all manufactured products, are subject to product defects. While measures to prevent the occurrence of product defects and system malfunction incidents have been taken, there can be no assurance that our glove chlorination systems will not have any defects or malfunction that may lead to disruption of our customers' glove manufacturing line. In such events, our customers may file complaints and/or claim for compensation against our Group for losses incurred from operational disruptions caused by the defects and/or malfunctions of our glove chlorination systems. Further, malfunctions of glove chlorination systems may also occur in the event that the maintenance of glove chlorination systems is not conducted routinely by industry players with expertise in the field as incidents such as inappropriate pipe fittings and detection of potential leakages may be overlooked, and this may lead to disruption of customers' glove manufacturing line.

On a worst-case scenario, the defects and/or malfunctions of our glove chlorination systems could lead to the discharge of chlorine gas to the environment which may jeopardise the health of factory personnel as well as the public at large. Such incidents may cause our customers to be fined or have lawsuits initiated against them for their negligence and the hazard created. This may subsequently affect our Group as any form of unfavourable publicity regarding our glove chlorination systems or other negative events occurring such as litigations initiated against us could harm our reputation. Such negative publicity could also adversely affect our future engagement with new customers and the loyalty of our existing customers, which could adversely affect our financial position and in turn affect our business.

For the past 3 FYEs, FPE 2020 and up to the LPD, we have not encountered any incidents of product defects or system malfunction that resulted in negative perception towards our products and/or our Group which had adversely affected our industry reputation.

### 8.1.11 We are subject to foreign exchange fluctuation risks which may impact the profitability of our Group

Some of our raw materials such as plastic resins, FRP materials, FRP gratings; as well as monitoring and control instruments such as circulation pumps, gears and motors and related parts and titanium coils are sourced from overseas and are mainly denominated in USD. In addition, plastic resins which are sourced from local suppliers are also subject to foreign currency fluctuation as it may be imported by our local suppliers.

For the past 3 FYEs and FPE 2020, our purchase of supplies is as follows:

| | **Audited** | | | | | |
|---|---|---|---|---|---|---|
| | **FYE 2017** | | **FYE 2018** | | **FYE 2019** | |
| Purchases in: | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| RM | 17,187 | 90.79 | 27,931 | 85.98 | 29,689 | 89.79 |
| USD | 1,726 | 9.12 | 4,448 | 13.69 | 3,198 | 9.67 |
| VND | 17 | 0.09 | 103 | 0.32 | 170 | 0.51 |
| THB | - | - | 4 | 0.01 | 9 | 0.03 |

| | **Unaudited** | | **Audited** | |
|---|---|---|---|---|
| | **FPE 2019** | | **FPE 2020** | |
| Purchases in: | **RM'000** | **%** | **RM'000** | **%** |
| RM | 21,368 | 88.04 | 24,234 | 94.42 |
| USD | 2,755 | 11.35 | 1,375 | 5.36 |
| VND | 147 | 0.60 | 56 | 0.22 |
| THB | * | * | * | * |

Note:

* Negligible.

In the FYE 2019 and FPE 2020, our purchases of supplies from our overseas suppliers amounted to RM3.38 million and RM1.43 million respectively. For illustration, assuming the fluctuation of RM against the currencies such as USD, VND and THB is 5% and such foreign exchange fluctuations is not passed on to customers by way of selling price changes, this will result in an increase or decrease in our GP for the FYE 2019 and FPE 2020 by RM0.17 million and RM0.07 million respectively, depending on the direction of the foreign exchange movement between RM and said currencies.

Further, 18.19%, 21.94% and 31.82% of our total revenue were denominated in USD for the past 3 FYEs 2017, 2018 and 2019, respectively. In FYE 2019 and FPE 2020, the sales denominated in USD amounted to RM15.86 million and RM4.80 million respectively. For illustration, assuming the fluctuation of RM against the USD is 5%, this will result in an increase or decrease in our GP for the FYE 2019 and FPE 2020 by RM0.79 million and RM0.24 million respectively, depending on the direction of the foreign exchange movement between RM and USD.

Our Group does not hedge our exposure to fluctuations in foreign currency exchange rates. As at the LPD, we have not entered into any foreign exchange contracts. As such, we are subject to foreign exchange fluctuation risk for the purchase of our supplies and revenue from our foreign sales. A depreciation of the RM against the USD will lead to higher costs of supplies for our Group. In the event that we are unable to pass the increase in cost to our customers in a timely manner, our financial performances may be adversely affected due to the reduced GP margin from higher cost of supplies.

There is an average lead time of approximately 12 months between project award and project completion, depending on the size of the project. This exposes us to foreign exchange fluctuation risks as we are unable to accurately price in all possible future depreciation of RM which may cause the revenue to be received from sales to be less than originally anticipated.

### 8.1.12 Our past PAT margins do not reflect our future PAT margins

Flexidynamic Engineering was entitled to pioneer status incentives for small scale companies under the Promotion of Investments Act, 1986 (Amendment) to produce on-line chlorination system and the profit derived from these activities is 100% exempted from tax for a total relief period of 5 years from manufacturing date, i.e. from 10 May 2013 to 9 May 2018. The tax savings had reduced our effective tax rate for FYE 2017 and FYE 2018 and had a positive effect on our PAT margins.

Since the expiration of our pioneer status on 10 May 2018, our Group no longer benefit from tax savings. As a result, our effective tax rate in FYE 2018 had increased to 17.88%. Our effective tax rate for FYE 2019 was 27.14% and 29.93%, which is higher than the statutory tax rate for the year of 24.00%.

Our taxation, effective tax rate and PAT margin for the 3 FYEs 2017 to 2019 and FPE 2020, are as follows:

| | Audited | | | Unaudited | Audited |
|---|---|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** | **FPE 2019** | **FPE 2020** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Taxation | 213 | 962 | 1,712 | 774 | 1,139 |
| Effective tax rate (%) | 4.60 | 17.88 | 27.14 | 27.46 | 29.93 |
| Statutory tax rate (%) | 24.00 | 24.00 | 24.00 | 24.00 | 24.00 |
| PAT margin (%) | 14.79 | 9.14 | 9.22 | 5.83 | 7.62 |

Based on the above, we wish to highlight that our past PAT margins recorded does not reflect our future PAT margins in view that the pioneer status had expired.

### 8.1.13 We may be subject to impairment loss or bad debts

We generally grant our customers credit periods between 30 and 90 days. In the event that payment is not received within the credit period or there is a default in payment by our customers, we may provide impairment loss on trade receivables or write off trade receivables as bad debts, which will adversely affect our financial performance.

Our allowances for impairment loss for the financial years/period under review are as follows:

| | FYE 2017 | FYE 2018 | FYE 2019 | FPE 2020 |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Allowance for expected credit loss | - | - | 559 | - |

In FYE 2019, we have provided for RM559,212 as allowance for expected credit loss due to the delay in payment from 3 customers, namely Smart Glove Corporation Sdn Bhd, Sigma Glove Industries Sdn Bhd and GX Corporation Sdn Bhd.

We recorded a reversal on impairment loss of financial asset of RM0.56 million due to the collection of amount due from Smart Glove Corporation Sdn Bhd of RM1.33 million in FPE 2020. The amount due from Sigma Glove Industries Sdn Bhd and GX Corporation Sdn Bhd of RM0.02 million was collected subsequent to FPE 2020. As at the LPD, trade receivables past due but not impaired amounted to RM3.44 million or 29.78% of our total receivables.

### 8.1.14 We face competition from other industry players and new market entrants

According to the IMR report, there are 6 other industry players with similar expertise and are involved in providing glove chlorination solutions to glove manufacturers and glove-dipping line manufacturers. Companies in the glove chlorination industry compete in terms of track record, reputation, product quality, ability to provide relevant solutions, delivery period and pricing. Competitive pressures may also result in competitive pricing in order to secure a project, which may affect our financial performance. As such, we face competition from existing industry players for the provision of glove chlorination solutions.

For new market entrants, it is essential for these industry players to be able to demonstrate strong credentials in terms of technical expertise which includes the design and engineering of a complete glove chlorination system, in order to enter and compete in the glove chlorination industry. While the barriers to entry for new entrants in this industry are high, we may still face competition from new entrants who are capable of offering similar solutions. Whilst we strive to remain competitive, there can be no assurance that any changes in the competitive environment would not have any material and adverse impact on our business and financial performance.

### 8.1.15 Our business is exposed to unexpected interruptions or delays caused by equipment failures, fire, as well as environmental factors (including natural disaster and outbreak of diseases), some of which may be beyond our control, which may lead to interruptions in our operations

While we outsource most of the manufacturing works to our subcontractors, we are involved in the manufacturing of off-line glove chlorination systems and centrifugal fans. We rely on machinery and equipment such as welding machines, overhead cranes and filament winding machines, amongst others, to conduct our manufacturing activities. These machinery and equipment may, on occasion, be out of service as a result of unanticipated failures or damages sustained during operations.

Further, our business operations may also be affected in the event of unexpected circumstances such as floods or fires which may result in the damage to, or destruction of all or part of our factory, machinery and equipment, or manufactured products. Any prolonged interruptions to our manufacturing activities due to such factors will affect our ability in adhering to our project timeline which could have an adverse impact on our business operations, relationship with customers, financial performance and industry reputation. For the past 3 FYEs and FPE 2020, our Group had not experienced any unexpected interruptions or delays caused by equipment failures, fire as well as environmental factors which may be beyond our Group's control.

### 8.1.16 Our insurance coverage may not be adequate to cover all losses or liabilities that may arise in connection with our operations

We maintain insurance at levels that are customary in our industry to protect against various losses and liabilities.

As at LPD, the Group has taken up the following insurance policies:

(a) Fire policies, collectively up to an aggregate sum insured of RM10.08 million; and

(b) Project insurance, with an aggregate sum insured of RM7.55 million.

However, our insurance may not be adequate to cover all losses or liabilities that might be incurred in our operations. For example, while we are insured against losses resulting from fires, we do not maintain insurance against losses at our factory as a result of burglary and natural disasters.

Moreover, we will be subject to the risk that, in the future, we may not be able to maintain or obtain insurance of the type and amount desired at reasonable rates. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our business, financial condition and results of operations.

## 8.2 RISKS RELATING TO OUR INDUSTRY

### 8.2.1 We are dependent on the glove industry for our success and growth

The performance of our Group is largely dependent on the glove industry as we primarily serve glove manufacturers and glove-dipping line manufacturers. Thus, our financial performance is likely to move in tandem with the performance of the glove industry. Growth in the glove industry generally depends on the global and domestic demand for gloves which lie in various factors, such as the following:

(a) Epidemic and pandemic disease outbreaks such as the Covid-19, Middle East Respiratory Syndrome (MERS), Ebola virus disease and Severe Acute Respiratory Syndrome (SARS);

(b) Growth in the global and domestic healthcare industry;

(c) Growth in the other global and domestic end-user industries that use gloves in daily operations such as manufacturing and food industry; and

(d) Growth in the hygiene awareness and changes in healthcare requirements in emerging markets.

As such, a decline in the global and domestic demand for gloves by end-users may lead to a slowdown in the glove industry, which will eventually have an adverse impact on our financial performance.

### 8.2.2 We rely on foreign workers in the manufacturing of our products

Although we engage subcontractors for most of the manufacturing works of our products, we retain in-house the manufacturing of off-line glove chlorination systems and centrifugal fans, where these in-house manufacturing activities are mainly carried out by foreign workers.

Manufacturing works are labour intensive. As at LPD, we have 32 foreign workers (for our Malaysia operations), representing 43.24% of the employees of Flexidynamic Engineering and all of them have valid working permits, which are renewed annually. As a result of limited supply of local labour, we are dependent on foreign workers mainly from Nepal and Bangladesh. Costs of foreign labour may continue to increase in the future as the Government continues to revise the relevant policies. In November 2018, pursuant to the release of Budget 2019, the Government announced a revision of minimum wages for all domestic and foreign workers to RM1,100 per month nationwide, from RM1,000 per month in Peninsular Malaysia and RM920 per month in East Malaysia, which was effective from 1 January 2019. The latest changes in minimum wages were announced through Budget 2020 whereby the minimum wages were raised to RM1,200 per month in major cities effective from 1 January 2020. Although this latest changes do not affect us as we are not located in the selected major cities, there is no assurance that we will not be affected by other future changes to the minimum wage policy in the country. In addition, our Group's business strategies which will involve the expansion of in-house manufacturing capabilities at our 2 new factories, would require a corresponding increase in labour force.

Hence, any increase in the levy rate and minimum wages for foreign workers will increase our cost of labour which may negatively affect our financial performance should we fail to pass on the increase in cost to our customers in a timely manner. Further, any changes in the policies in relation to the foreign labour which will affect the hiring of foreign workers and may exert a negative impact on our financial performance.

### 8.2.3 We are subject to risk relating to the economic, political and/or legal environment in the markets in which we operate

Notwithstanding that we principally operate in Malaysia, we derive an increasing portion of our revenue from foreign sales to various countries including Vietnam, Thailand, Indonesia and Sri Lanka. In the past 3 FYEs 2017 to 2019 and FPE 2020, our foreign sales accounted for 18.19%, 21.94%, 31.82% and 13.72% of our total revenue respectively.

As we continue to expand our business, our financial performance and results of operations are expected to be affected by the economic, political and/or legal conditions in the countries where we operate, transact business or have interests, making us increasingly susceptible to the operational risks caused by these conditions.

Conducting business in other markets also requires us to comply with foreign laws and regulations covering many aspects of our operations, including trade laws and licensing regulations, and these laws and regulations may change, or may be updated and amended, from time to time. Much of the above changes are beyond our control. Whilst we practise prudent financial management and efficient operating procedures, there can be no assurance that any adverse economic, political and/or legal developments will not materially affect the financial performance of our Group.

## 8.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES

### 8.3.1 There has been no prior market for our Shares

Prior to our Listing, there was no public trading for our Shares. Accordingly, there can be no assurance that an active market for our Shares will develop upon our Listing or, if developed, that such market will be sustained. Our IPO Price was determined after taking into consideration a number of factors including but not limited to our historical earnings, our competitive strengths, our business strategies and prospects as well as our financial and operating history. There can be no assurance that our IPO Price will correspond to the price at which our Shares will be traded on the ACE Market upon or subsequent to our Listing or that an active market for our Shares will develop and continue upon or subsequent to our Listing.

The price at which our Shares will trade on the ACE Market may be influenced by a number of factors including, amongst others, the depth and liquidity of the market for our Shares, investors' individual perceptions of our Group, market and economic conditions.

### 8.3.2 Our Listing is exposed to the risk that it may be aborted or delayed

Our Listing is exposed to the risk that it may be aborted or delayed on the occurrence of any one or more of the following events:

(a) The selected investors fail to subscribe for the IPO Shares;

(b) Our Underwriter in exercising its rights pursuant to the Underwriting Agreement discharges itself from its obligations therein; and

(c) We are unable to meet the public shareholding spread requirement as determined by Bursa Securities, whereby at least 25.00% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

In this respect, we will exercise our best endeavours to comply with the various regulatory requirements, including, amongst others the public shareholding spread requirement in paragraph (c) above for our successful Listing. However, there can be no assurance that the abovementioned factors/events will not cause a delay in or non-implementation of our Listing.

Upon the occurrence of any of these events, investors will not receive any Shares and we will return in full without interest, all monies paid in respect of any application for our Shares within 14 days, failing which the provisions of sub-sections 243(2) and 243(6) of the CMSA will apply accordingly and we will be liable to repay the monies with interest at the rate of 10.0% per annum or such other rate as may be prescribed by the SC upon expiration of that period until full refund is made.

In the event our Listing is aborted and/or terminated, and our Shares have been allotted to the shareholders, a return of monies to all holders of our Shares can only be achieved by way of cancellation of share capital as provided under the Act and its related rules. Such cancellation requires, among others, the sanction of our shareholders by special resolution in a general meeting and consent of our creditors (if required). There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

### 8.3.3 The trading price of our Shares following our Listing may be volatile

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

In addition, the performance of Bursa Securities is very much dependent on external factors such as the performance of the regional and world bourses and the inflow or outflow of foreign funds. Sentiments are also largely driven by internal factors such as economic and political conditions of the country as well as the growth potential of the various sectors of the economy. These factors invariably contribute to the volatility witnessed on Bursa Securities, thus adding risks to the market price of our listed shares.

## 8.4 OTHER RISKS

### 8.4.1 Our Promoters will be able to exert significant influence over our Company

Our Promoters will collectively hold 62.48% of our enlarged share capital upon Listing. Because of the size of their shareholdings, 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 as required by the relevant authorities.

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# 9. RELATED PARTY TRANSACTIONS

## 9.1 RELATED PARTY TRANSACTIONS

Save as disclosed below, we have not entered into any related party transactions with our Directors, substantial shareholders, key senior management personnel and/or persons connected with them for the past 3 FYEs 2017 to 2019, FPE 2020 and up to the LPD.

| Transacting parties | Interested persons | Nature of transaction | Value of transactions | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FYE 2017 | | FYE 2018 | | FYE 2019 | |
| | | | RM | % | RM | % | RM | % |
| Phitchaya Arsangku and Flexidynamic Thailand | (i) Tan Kong Leong, our Promoter, substantial shareholder and Managing Director, is the husband of Phitchaya Arsangku | Rental of Thailand office by Phitchaya Arsangku to Flexidynamic Thailand (iii) (3) | - | - | - | - | 21,138 (or THB 157,773) | (i) 0.43 |
| | (ii) Phitchaya Arsangku, our Promoter and Director of Flexidynamic Thailand, is the wife of Tan Kong Leong | Rental of vehicle from Phitchaya Arsangku to Flexidynamic Thailand (iii) | 45,581 (or THB 360,000) | (ii) 0.21 | 44,976 (or THB 360,000) | (ii) 0.12 | 48,231 (or THB 360,000) | (ii) 0.13 |
| ZYL Dynamic Sdn Bhd ("ZYL") and Flexidynamic Engineering | (i) Tan Kong Kee, the Director and shareholder of ZYL, is the brother of Tan Kong Leong, our Promoter, substantial shareholder and Managing Director | Rental of office located at Puchong by Flexidynamic Engineering from ZYL (3) | 54,000 | (i) 1.73 | 64,000 | (i) 1.36 | 66,000 | (i) 1.33 |
| | (ii) Chin Nyuk Fong, the Director and shareholder of ZYL, is the sister-in-law of Tan Kong Leong | | | | | | | |

## 9. RELATED PARTY TRANSACTIONS *(Cont'd)*

| Transacting parties | Interested persons | Nature of transaction | Value of transactions | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | FYE 2017 | | FYE 2018 | | FYE 2019 | |
| | | | RM | % | RM | % | RM | % |
| | | Maintenance fees paid to ZYL in relation to maintenance services for factory equipment | 96,000 | (i) 3.08 | 50,000 | (i) 1.06 | - | - |
| | | Rental of storage space located at Ipoh by Flexidynamic Engineering from ZYL | 30,000 | (i) 0.96 | 23,000 | (i) 0.49 | - | - |
| Tan Kong Kee and Flexidynamic Engineering | Tan Kong Kee, the brother of Tan Kong Leong, our Promoter, substantial shareholder and Managing Director | Rental of factory located at Banting by Flexidynamic Engineering from Tan Kong Kee [(2)] | 228,000 | (i) 7.31 | 226,000 | (i) 4.80 | - | - |
| Mega Surplus Sdn Bhd ("Mega Surplus") and Flexidynamic Engineering | The Directors and shareholders of Mega Surplus, namely:<br>(i) Tan Eng Cheong is the father of Tan Kong Leong, our Promoter, substantial shareholder and Managing Director; and<br>(ii) Tan Kong Wee and Tan Kon How are the brothers of Tan Kong Leong | Purchase of sawn timber for manufacture of wooden mould and general use from Mega Surplus [(3)] [(4)] | 584,085 | (ii) 2.72 | 168,978 | (ii) 0.47 | 105,600 | (ii) 0.29 |

## 9. RELATED PARTY TRANSACTIONS *(Cont'd)*

| Transacting parties | Interested persons | Nature of transaction | Value of transactions FYE 2017 RM | FYE 2017 % | FYE 2018 RM | FYE 2018 % | FYE 2019 RM | FYE 2019 % |
|---|---|---|---|---|---|---|---|---|
| Tan Kong Leong, Phitchaya Arsangku, Malinee Arsangku and Flexidynamic Engineering | (i) Tan Kong Leong is our Promoter, substantial shareholder and Managing Director and husband of Phitchaya Arsangku<br>(ii) Phitchaya Arsangku is our Promoter and Director of Flexidynamic Thailand and wife of Tan Kong Leong<br>(ii) Malinee Arsangku is the sister of Phitchaya Arsangku and sister-in-law of Tan Kong Leong | Sale of Flexidynamic Thailand Shares by Tan Kong Leong, Phitchaya Arsangku and Malinee Arsangku to Flexidynamic Engineering | - | - | 189,128 (iv) (or USD 45,300) | - | - | - |

| Transacting parties | Interested persons | Nature of transaction | Value of transactions FPE 2020 RM | FPE 2020 % | From 1 October 2020 up to the LPD RM | From 1 October 2020 up to the LPD % |
|---|---|---|---|---|---|---|
| Phitchaya Arsangku and Flexidynamic Thailand | (i) Tan Kong Leong, our Promoter, substantial shareholder and Managing Director, is the husband of Phitchaya Arsangku | Rental of Thailand office by Phitchaya Arsangku to Flexidynamic Thailand (iii) (3) | 18,074 (or THB 135,000) | (i) 0.45 | 10,128 (or THB 75,000) | (i) 0.41 |

## 9. RELATED PARTY TRANSACTIONS *(Cont'd)*

| Transacting parties | Interested persons | Nature of transaction | Value of transactions: FPE 2020 RM | Value of transactions: FPE 2020 % | Value of transactions: From 1 October 2020 up to the LPD RM | Value of transactions: From 1 October 2020 up to the LPD % |
|---|---|---|---|---|---|---|
| | (ii) Phitchaya Arsangku, our Promoter and Director of Flexidynamic Thailand, is the wife of Tan Kong Leong | Rental of vehicle from Phitchaya Arsangku to Flexidynamic Thailand (iii) | 12,049 (or THB 90,000) | (ii) 0.04 | - | - |
| ZYL and Flexidynamic Engineering | (i) Tan Kong Kee, the Director and shareholder of ZYL, is the brother of Tan Kong Leong, our Promoter, substantial shareholder and Managing Director<br>(ii) Chin Nyuk Fong, the Director and shareholder of ZYL, is the sister-in-law of Tan Kong Leong | Rental of office located at Puchong by Flexidynamic Engineering from ZYL (3) | 49,500 | (i) 1.23 | 27,500 | (i) 1.11 |
| Mega Surplus and Flexidynamic Engineering | The Directors and shareholders of Mega Surplus, namely:<br>(i) Tan Eng Cheong is the father of Tan Kong Leong, our Promoter, substantial shareholder and Managing Director; and<br>(ii) Tan Kong Wee and Tan Kon How are the brothers of Tan Kong Leong | Purchase of sawn timber for manufacture of wooden mould and general use from Mega Surplus (3) (4) | 94,657 | (ii) 0.35 | 41,160 | (ii) 0.22 |

## 9. RELATED PARTY TRANSACTIONS *(Cont'd)*

Notes:

(i) Calculated based on our Group's administrative expenses for each of the respective financial years/period and as at the LPD.
(ii) Calculated based on our Group's cost of sales for each of the respective financial years/period and as at the LPD.
(iii) Calculated based on the following exchange rates:

| Year/period | RM/THB100 |
|---|---|
| FYE 2017 | 12.6616 |
| FYE 2018 | 12.4935 |
| FYE 2019 | 13.3975 |
| FPE 2020 | 13.3879 |
| LPD | 13.5045 |

(iv) Calculated based on the exchange rate as at 17 November 2018 of RM4.175:USD1.00.

(1) This related party transaction is not on arm's length basis as the rental is approximately 40% above the market rate. This rental has ceased effective March 2020.

(2) Flexidynamic Engineering ceased renting from Tan Kong Kee in August 2018 after relocating to Banting Factory.

(3) These related party transactions are expected to recur after the Listing.

(4) The purchase of sawn timber from Mega Surplus decreased over the FYEs as manufacturing of wooden moulds has been reduced over the FYEs. The wooden moulds are only manufactured as and when required.

As at the LPD, there are no related party transactions entered into but not yet effected.

Save as disclosed above, our Directors are of the view that the above related party transactions were conducted on an arm's length basis and on competitive commercial terms not more favourable to the related parties and were not to the detriment of our minority shareholders.

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## 9. RELATED PARTY TRANSACTIONS *(Cont'd)*

Moving forward, if there are potential related party transactions, the related parties must first inform our Audit and Risk Management Committee on their interests in the transaction and the nature of the transaction before the transaction is entered into.

Our Audit and Risk Management Committee is responsible for the review of all related party transactions to ensure that there is no conflict of interest. Our Audit and Risk Management Committee shall deliberate and determine if the related party transactions (if any) are undertaken on arm's length basis and on normal commercial terms, we have established the following procedures:

### (a) Recurrent related party transactions

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

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

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

### (b) Other related party transactions

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

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

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

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

For related party transaction that requires prior approval of shareholders, the Directors, major shareholders and/or persons connected to them, which have any interest, direct or indirect, in the proposed related party transaction will abstain from voting in respect of their direct and/or indirect shareholdings. Where a person connected with a Director or major shareholder has interest, direct or indirect, in any proposed related party transaction, the Director or major shareholder concerned will also abstain from voting in respect of his direct and/or indirect shareholdings.

## 9. RELATED PARTY TRANSACTIONS *(Cont'd)*

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

### 9.2 OTHER TRANSACTIONS

**(a) Transactions which are unusual in their nature or conditions**

There were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party during the financial years/period under review and up to the LPD.

**(b) Loans and guarantees**

Save as disclosed below, there were no outstanding loans and guarantees made to/by us to or for the benefit of any related party for the past 3 FYEs, FPE 2020 and up to the LPD:

(i) Personal guarantees

Our Promoters, namely Tan Kong Leong and Liew Heng Wei had extended guarantees for banking facilities extended to our Group as at the LPD. In conjunction with the Listing, the respective banks had agreed to discharge the said personal guarantees upon the completion of the Listing.

(ii) Advances to related parties

The following advances were made by Flexidynamic Thailand to Tan Kong Leong, our Promoter, substantial shareholder and Managing Director as well as Phitchaya Arsangku, our Promoter and Director of Flexidynamic Thailand during the past 3 FYEs, FPE 2020 and up to the LPD:

| | **FYE 2017** | **FYE 2018** | **FYE 2019** | **FPE 2020** | **As at LPD** |
|---|---|---|---|---|---|
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Amount due from Tan Kong Leong | - | 180 | - | - | - |
| Amount due from Pritchaya Arsangku | - | 215 | - | - | - |

Advances amounting to RM0.40 million were made by Flexidynamic Thailand to Tan Kong Leong (RM0.18 million) and Phitchaya Arsangku (RM0.22 million) in FYE 2018 for personal use. These advances do not carry any interest and the amount has been repaid in FYE 2019.

**(c) Financial assistance provided for the benefit of a related party**

There were no financial assistance provided by us for the benefit of any related party for the past 3 FYEs, FPE 2020 and up to the LPD.

# 10. CONFLICT OF INTERESTS

## 10.1 INTEREST IN SIMILAR BUSINESS AND IN BUSINESSES OF OUR CUSTOMERS AND OUR SUPPLIERS

As at the LPD, none of our Directors or substantial shareholders has any interest, direct or indirect, in other businesses or corporations which are:

(a) Carrying on a similar or related trade as our Group; or

(b) Customers and/or suppliers of our Group.

It is our Director's fiduciary duty to avoid conflict, and they are required to attend courses which provide them guidelines on their fiduciary duties. In order to mitigate any possible conflict of interest situation in the future, our Directors will declare to our Nomination Committee and our Board their interests in other companies at the onset and as and when there are changes in their respective interests in companies outside our Group. Our Nomination Committee will then evaluate if such Director's involvement gives rise to a potential conflict of interest situation with our Group's business. If our Directors are involved in similar business as our Group or business of our customers and our suppliers, our Nomination Committee shall inform our Audit and Risk Management Committee of such involvement. When a determination has been made that there is a conflict of interest of a Director, our Nomination Committee will:

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

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

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

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

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

## 10.2 DECLARATIONS OF CONFLICT OF INTERESTS BY OUR ADVISERS

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

(b) Messrs Wong Beh & Toh has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as the Solicitors for our Listing;

(c) Messrs Grant Thornton Malaysia PLT has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Auditors and Reporting Accountants for our Listing; and

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

# 11. FINANCIAL INFORMATION

## 11.1 HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

Our audited combined financial statements throughout the FYEs 2017 to 2019 and FPE 2020 have been prepared in accordance with MFRS and IFRS. Our audited combined financial statements for the FYEs 2017 to 2019 and FPE 2020 under review were not subject to any audit qualifications.

### 11.1.1 Historical financial information

The following summary should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set out in Section 11.2 and the Accountants' Report set out in Section 12.

**(a) Historical combined statements of profit or loss and other comprehensive income**

The following table sets out a summary of our historical audited combined statements of profit or loss and other comprehensive income for the FYEs 2017 to 2019 and FPE 2020:

| | Audited | | | Unaudited | Audited |
|---|---|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** | **FPE 2019** | **FPE 2020** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Revenue | 29,902 | 48,322 | 49,839 | 35,093 | 35,007 |
| Cost of sales | (21,447) | (36,331) | (35,883) | (27,080) | (27,306) |
| GP | 8,455 | 11,991 | 13,956 | 8,013 | 7,701 |
| Other income | 51 | 129 | 306 | 252 | 612 |
| Change in fair value of equity investments | 553 | 243 | (535) | (319) | - |
| (Allowance)/Reversal for expected credit loss | - | - | (559) | - | 559 |
| Selling and distribution expenses | (606) | (910) | (848) | (645) | (385) |
| Administrative expenses | (3,118) | (4,710) | (4,957) | (3,691) | (4,011) |
| Other expenses | (643) | (1,249) | (989) | (738) | (629) |
| Profit from operation | 4,692 | 5,494 | 6,374 | 2,872 | 3,847 |
| Finance costs | (90) | (157) | (127) | (92) | (61) |
| Finance income | 34 | 42 | 60 | 39 | 19 |
| PBT | 4,636 | 5,379 | 6,307 | 2,819 | 3,805 |
| Tax expense | (213) | (962) | (1,712) | (774) | (1,139) |
| **PAT** | **4,423** | **4,417** | **4,595** | **2,045** | **2,666** |
| **PAT attributable to:** | | | | | |
| - Owners of the Company | 4,396 | 4,289 | 4,605 | 2,019 | 2,705 |
| - Non-controlling interest | 27 | 128 | (10) | 26 | (39) |
| | **4,423** | **4,417** | **4,595** | **2,045** | **2,666** |
| EBIT (1) | 4,692 | 5,494 | 6,374 | 2,872 | 3,847 |
| EBITDA (1) | 5,170 | 6,049 | 7,007 | 3,333 | 4,400 |
| GP margin (%) | 28.28 | 24.81 | 28.00 | 22.83 | 22.00 |
| PBT margin (%) | 15.50 | 11.13 | 12.65 | 8.03 | 10.87 |
| PAT margin (%) | 14.79 | 9.14 | 9.22 | 5.83 | 7.62 |
| Effective tax rate (%) | 4.60 | 17.88 | 27.14 | 27.46 | 29.93 |
| EPS (sen) (2) | 2.11 | 2.06 | 2.21 | 0.97 | 1.30 |
| Diluted EPS (sen) (3) | 1.55 | 1.51 | 1.62 | 0.71 | 0.95 |

Notes:

(1) EBIT and EBITDA are calculated as follows:

| | Audited | | | Unaudited | Audited |
|---|---|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** | **FPE 2019** | **FPE 2020** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| PAT | 4,423 | 4,417 | 4,595 | 2,045 | 2,666 |
| Less: | | | | | |
| Interest income | (34) | (42) | (60) | (39) | (19) |
| Add: | | | | | |
| Finance costs | 90 | 157 | 127 | 92 | 61 |
| Taxation | 213 | 962 | 1,712 | 774 | 1,139 |
| **EBIT** | **4,692** | **5,494** | **6,374** | **2,872** | **3,847** |
| Add: | | | | | |
| Depreciation and amortisation | 478 | 555 | 633 | 461 | 553 |
| **EBITDA** | **5,170** | **6,049** | **7,007** | **3,333** | **4,400** |

(2) Calculated based on our PAT attributable to owners of the Company divided by the share capital of 208,660,200 Shares before our IPO.

(3) Calculated based on our PAT attributable to owners of the Company divided by the enlarged share capital of 283,891,200 Shares after our IPO.

### (b) Historical combined statements of financial position

The following table sets out our historical combined statements of financial position as at 31 December 2017, 2018 and 2019 as well as 30 September 2019 and 2020:

| | Audited | | | Unaudited | Audited |
|---|---|---|---|---|---|
| | 31 December | | | 30 September | |
| | **2017** | **2018** | **2019** | **2019** | **2020** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 7,663 | 8,728 | 12,402 | 9,340 | 15,274 |
| Investment in equity instruments | 2,292 | 2,660 | 2,823 | 3,038 | - |
| Deferred tax asset | - | 700 | 122 | - | 2,888 |
| Other receivables | - | 402 | 291 | 339 | 190 |
| **Total non-current assets** | **9,955** | **12,490** | **15,638** | **12,717** | **18,352** |
| **Current assets** | | | | | |
| Inventories | 1,662 | 2,818 | 4,195 | 3,451 | 4,807 |
| Trade receivables | 7,375 | 14,465 | 11,757 | 8,754 | 22,907 |
| Other receivables | 359 | 1,042 | 1,311 | 2,000 | 1,819 |
| Amount due from a Director | - | 180 | - | 274 | - |
| Amount due from a shareholder | - | 215 | - | - | - |
| Tax recoverable | 4 | - | 26 | 746 | - |
| Fixed deposits with a licensed financial institution | 1,124 | 1,160 | - | 1,187 | - |
| Cash and bank balances | 6,201 | 5,164 | 3,930 | 3,379 | 11,827 |
| **Total current assets** | **16,725** | **25,044** | **21,219** | **19,791** | **41,360** |
| **TOTAL ASSETS** | **26,680** | **37,534** | **36,857** | **32,508** | **59,712** |

## 11. FINANCIAL INFORMATION *(Cont'd)*

| | Audited | | | Unaudited | Audited |
|---|---|---|---|---|---|
| | 31 December | | | 30 September | |
| | 2017 | 2018 | 2019 | 2019 | 2020 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **EQUITY AND LIABILITIES** | | | | | |
| **EQUITY** | | | | | |
| Share capital | 515 | 617 | 734 | 734 | 734 |
| Capital reserve | - | 631 | 631 | 631 | 631 |
| Foreign exchange reserve | 6 | 17 | 56 | 56 | 46 |
| Retained earnings | 12,737 | 16,126 | 19,772 | 17,486 | 21,777 |
| **NA** | 13,258 | 17,391 | 21,193 | 18,907 | 23,188 |
| Non-controlling interest | 121 | 368 | 288 | 325 | 238 |
| **Total equity** | **13,379** | **17,759** | **21,481** | **19,232** | **23,426** |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Bank borrowings | 4,537 | 4,224 | 6,177 | 3,944 | 8,623 |
| Lease liabilities | 295 | 313 | 494 | 559 | 751 |
| Deferred tax liabilities | 10 | - | - | 142 | - |
| **Total non-current liabilities** | **4,842** | **4,537** | **6,671** | **4,645** | **9,374** |
| **Current liabilities** | | | | | |
| Trade payables | 5,919 | 8,954 | 6,515 | 7,019 | 8,916 |
| Other payables and accruals | 1,301 | 1,175 | 386 | 418 | 286 |
| Contract liabilities | 762 | 3,401 | 692 | 24 | 13,002 |
| Bank borrowings | 174 | 730 | 893 | 940 | 1,131 |
| Lease liabilities | 168 | 144 | 219 | 230 | 287 |
| Tax payable | 135 | 834 | - | - | 3,290 |
| **Total current liabilities** | **8,459** | **15,238** | **8,705** | **8,631** | **26,912** |
| **TOTAL LIABILITIES** | **13,301** | **19,775** | **15,376** | **13,276** | **36,286** |
| **TOTAL EQUITY AND LIABILITIES** | **26,680** | **37,534** | **36,857** | **32,508** | **59,712** |

### (c) Historical audited combined statements of cash flows

The following table sets out our audited combined statements of cash flows for the FYEs 2017 to 2019 and FPE 2020:

| | Audited | | | Unaudited | Audited |
|---|---|---|---|---|---|
| | FYE 2017 | FYE 2018 | FYE 2019 | FPE 2019 | FPE 2020 |
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| **Operating Activities** | | | | | |
| PBT | 4,636 | 5,379 | 6,307 | 2,819 | 3,805 |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment | 478 | 555 | 633 | 461 | 553 |
| Allowance/(Reversal) for expected credit losses on trade receivables | - | - | 559 | - | (559) |
| Finance costs | 90 | 157 | 127 | 92 | 61 |
| Finance income | (34) | (42) | (60) | (39) | (19) |

**11. FINANCIAL INFORMATION *(Cont'd)***

| | Audited | | | Unaudited | Audited |
|---|---|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** | **FPE 2019** | **FPE 2020** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Gain on disposal of property, plant and equipment | (27) | (12) | (84) | (83) | - |
| Unrealised loss/(gain) on foreign exchange | 9 | (59) | (131) | (93) | (147) |
| Dividend income | (23) | (55) | (56) | (41) | - |
| Loss/(Gain) on disposal of investment in equity instruments | - | 15 | (34) | (34) | (305) |
| Property, plant and equipment written off | * | 380 | 1 | 1 | * |
| Fair value (gain)/loss on investment in equity instruments | (553) | (243) | 535 | 319 | - |
| Employee benefits through transfer of the Company share to employees | - | 631 | - | - | - |
| **Operating profit before working capital changes** | **4,576** | **6,706** | **7,797** | **3,402** | **3,389** |
| Changes in working capital: | | | | | |
| Inventories | (1,032) | (1,156) | (1,377) | (633) | (611) |
| Receivables | 2,141 | (8,287) | 1,976 | 4,793 | (10,963) |
| Payables | 686 | 5,948 | (5,937) | (6,069) | 14,611 |
| **Cash generated from operations** | **6,371** | **3,211** | **2,459** | **1,493** | **6,426** |
| Tax refunded | 1 | - | - | - | - |
| Tax paid | (124) | (974) | (2,021) | (1,513) | (589) |
| **Net cash (used in)/from operating activities** | **6,248** | **2,237** | **438** | **(20)** | **5,837** |
| **Investing Activities** | | | | | |
| Purchase of property, plant and equipment | (148) | (1,838) | (1,596) | (645) | (504) |
| Dividend received | 23 | 55 | 56 | 41 | - |
| Proceeds from subscription of additional shares in an existing subsidiary | - | 102 | 117 | 117 | - |
| Proceeds from subscription of additional shares in an existing subsidiary by non-controlling interest | - | 106 | 122 | 122 | - |
| Proceeds from disposal of investment in equity instruments | - | 314 | 949 | 949 | 3,128 |
| Purchase of investment in equity instruments, net | (64) | (453) | (1,613) | (1,613) | - |
| Interest received | 34 | 42 | 47 | 39 | 19 |
| Proceeds from disposal of property, plant and equipment | 36 | 55 | 109 | 108 | - |
| **Net cash (used in)/from investing activities** | **(119)** | **(1,617)** | **(1,809)** | **(882)** | **2,643** |

## 11. FINANCIAL INFORMATION *(Cont'd)*

| | Audited | | | Unaudited | Audited |
|---|---|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** | **FPE 2019** | **FPE 2020** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Financing Activities** | | | | | |
| Dividends paid | (600) | (1,300) | (960) | (660) | (700) |
| Dividends of subsidiary paid to non-controlling interest | (16) | - | (232) | (230) | - |
| Interest paid | (90) | (115) | (127) | (92) | (61) |
| (Placement)/Uplift of fixed deposits pledged with a licensed financial institution | (32) | (37) | 1,160 | (27) | - |
| Drawdown of bank borrowings | 9 | 552 | 2,307 | 1,787 | 1,250 |
| Repayment of bank borrowings | (420) | (310) | (2,476) | (1,856) | (1,073) |
| Repayments of lease liabilities | (169) | (209) | (188) | (112) | (103) |
| (Advance to)/Repayment from a Director | - | (180) | 180 | (94) | - |
| (Advance to)/Repayment from a shareholder | - | (215) | 215 | 215 | - |
| **Net cash used in financing activities** | **(1,318)** | **(1,814)** | **(121)** | **(1,069)** | **(687)** |
| **Net increase/(decrease) in cash and cash equivalents** | **4,811** | **(1,194)** | **(1,492)** | **(1,971)** | **7,793** |
| Effect on foreign exchange translation | 10 | 157 | 258 | 186 | 104 |
| Cash and cash equivalents at the beginning of the financial year/period | 1,380 | 6,201 | 5,164 | 5,164 | 3,930 |
| **Cash and cash equivalents at the end of the financial year**/period | **6,201** | **5,164** | **3,930** | **3,379** | **11,827** |

Note:

* Negligible.

### 11.1.2 Pro forma consolidated statements of financial position

The following table sets out a summary of the pro forma consolidated statements of financial position of our Group, to show the effects of the Acquisition of Flexidynamic Engineering, Public Issue and utilisation of IPO proceeds.

The pro forma consolidated statements of financial position are presented for illustrative purposes only and should be read in conjunction with the Reporting Accountants' report together with the notes and assumptions accompanying the Pro forma Consolidated Statements of Financial Position as set out in Section 13.

| | Flexidynamic Holdings | I | II | III |
|---|---|---|---|---|
| | As at 30 September 2020 | After Acquisition of Flexidynamic Engineering | After I and after Public Issue | After II and after utilisation of IPO proceeds |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | - | 15,274 | 15,274 | 18,920 |
| Deferred tax assets | - | 2,888 | 2,888 | 2,888 |
| Other receivables | - | 190 | 190 | 190 |
| **Total non-current assets** | **-** | **18,352** | **18,352** | **21,998** |
| **Current assets** | | | | |
| Inventories | - | 4,807 | 4,807 | 4,807 |
| Trade receivables | - | 22,907 | 22,907 | 22,907 |
| Other receivables | - | 1,819 | 1,819 | 631 |
| Cash and bank balances | * | 11,827 | 26,873 | 16,631 |
| **Total current assets** | * | **41,360** | **56,406** | **44,976** |
| **TOTAL ASSETS** | ***** | **59,712** | **74,758** | **66,974** |
| **EQUITY AND LIABILITIES** | | | | |
| **EQUITY** | | | | |
| Share capital | * | 20,866 | 35,912 | 35,312 |
| Merger deficit | - | (20,116) | (20,116) | (20,116) |
| Capital reserve | - | 631 | 631 | 631 |
| Foreign exchange reserve | | 8 | 8 | 8 |
| (Accumulated losses)/Retained earnings | (5) | 21,784 | 21,784 | 19,384 |
| NA | (5) | 23,173 | 38,219 | 35,219 |
| Non-controlling interest | - | (77) | (77) | (77) |
| **Total equity** | **(5)** | **23,096** | **38,142** | **35,142** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Borrowings | - | 8,623 | 8,623 | 3,839 |
| Lease liabilities | - | 751 | 751 | 751 |
| **Total non-current liabilities** | **-** | **9,374** | **9,374** | **4,590** |
| **Current liabilities** | | | | |
| Trade payables | - | 8,916 | 8,916 | 8,916 |
| Other payables and accruals | 5 | 616 | 616 | 616 |
| Contract liabilities | - | 13,002 | 13,002 | 13,002 |

## 11. FINANCIAL INFORMATION *(Cont'd)*

| | Flexidynamic Holdings | I | II | III |
|---|---|---|---|---|
| | As at 30 September 2020 | After Acquisition of Flexidynamic Engineering | After I and after Public Issue | After II and after utilisation of IPO proceeds |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Borrowings | - | 1,131 | 1,131 | 1,131 |
| Lease liabilities | - | 287 | 287 | 287 |
| Tax payable | | 3,290 | 3,290 | 3,290 |
| **Total current liabilities** | **5** | **27,242** | **27,242** | **27,242** |
| **TOTAL LIABILITIES** | **5** | **36,616** | **36,616** | **31,832** |
| **TOTAL EQUITY AND LIABILITIES** | ***** | **59,712** | **74,758** | **66,974** |
| Number of Shares in issue ('000) | ^ | 208,660 | 283,891 | 283,891 |
| Net (liabilities)/asset per share (RM) | (25.51) | 0.11 | 0.13 | 0.12 |
| Borrowings (All interest bearing debts) | - | 10,792 | 10,792 | 6,008 |
| Gearing (times) [(1)] | - | 0.47 | 0.28 | 0.17 |
| Current ratio (times) [(2)] | 0.004 | 1.52 | 2.07 | 1.65 |

Notes:

* Representing RM20.00 only.
^ Representing 200 Shares only.

(1) Calculated based on the total borrowings (i.e. lease liabilities and bank borrowings) of our Group divided by the total equity of our Group.

(2) Calculated based on total current assets divided by total current liabilities of our Group.

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

The discussion of our business, financial condition and results of operations for the FYEs 2017 to 2019 and FPE 2020 refers to the historical audited combined financial information of Flexidynamic Engineering. Our audited financial statements have been prepared in accordance with MFRS and IFRS for the FYEs 2017 to 2019 and FPE 2020.

The following discussion and analysis of our Group's financial performance and results of operations should be read in conjunction with the Accountant's Report as sets out in Section 12 and the Reporting Accountant's letter on the pro forma consolidated statements of financial position as set out in Section 13.

#### 11.2.1 Overview of our operations

Our Group is principally involved in the design, engineering, installation and commissioning of glove chlorination systems, as well as the design and installation of storage tanks and process tanks for the glove manufacturing industry. Our core business activities are as follows:

(a) Design, engineering, installation and commissioning of glove chlorination systems. This is complemented with our in-house manufacturing activities for centrifugal fans;

(b) Repairs, refurbishment and maintenance of glove chlorination systems;

(c) Trading of replacement parts for glove chlorination systems;

(d) Design and installation of storage tanks and process tanks; and

(e) Other products and services including FRP lining services and scrubber systems.

Our revenue is generated from local and overseas sales and the currency used in invoicing is RM and USD. Approximately 81.81%, 78.06%, 68.18% and 86.28% of our revenues were denominated in RM for FYEs 2017 to 2019 and FPE 2020 respectively, with the remainder denominated in USD.

The significant factors affecting our business include the following:

**(i) Fluctuation of foreign exchange rate**

For the past 3 FYEs 2017 to 2019 and FPE 2020, our revenue was mainly derived from Malaysia and is denominated in RM. The percentage contribution in revenue from Malaysia has been decreasing over the past FYE 2017 to FYE 2019 due to the increase in our overseas revenue, including projects in Vietnam, Thailand, Indonesia and Sri Lanka, which is transacted in USD. We recorded an increase in sales to customers from Vietnam, namely Ever Global (Vietnam) Enterprise Corporation and Thailand, namely Sri Trang Group for the past 3 FYEs.

In FPE 2020, our foreign sales decreased from RM13.14 million or 37.44% in FPE 2019 to RM4.80 million or 13.72% in FPE 2020 due to the completion of the majority of overseas projects during FYE 2019. Nevertheless, we have secured new projects from customers in Thailand and Vietnam amounting to RM41.09 million during FPE 2020 and most of the revenue from these new projects shall be recognised after FPE 2020. Of the RM41.09 million worth of projects secured from customers in Thailand and Vietnam during the FPE 2020, RM2.30 million was recognised in the FPE 2020; RM8.67 million was recognised between October 2020 and December 2020; and RM27.87 million and RM2.25 million are expected to be recognised in the financial years ending 2021 and 2022 respectively.

| | **Audited** | | | | | |
|---|---|---|---|---|---|---|
| | **FYE 2017** | | **FYE 2018** | | **FYE 2019** | |
| | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| Sales transacted in RM | 24,464 | 81.81 | 37,721 | 78.06 | 33,982 | 68.18 |
| Sales transacted in USD | 5,438 | 18.19 | 10,601 | 21.94 | 15,857 | 31.82 |

| | **Unaudited** | | **Audited** | |
|---|---|---|---|---|
| | **FPE 2019** | | **FPE 2020** | |
| | **RM'000** | **%** | **RM'000** | **%** |
| Sales transacted in RM | 21,954 | 62.56 | 30,203 | 86.28 |
| Sales transacted in USD | 13,139 | 37.44 | 4,804 | 13.72 |

Due to the significant contribution of sales transacted in USD, any appreciation or depreciation of the USD against RM will significantly affect our overall revenue.

Some of our raw materials such as plastic resins, FRP materials, FRP grating; as well as monitoring and control instruments such as circulation pumps, gears and motors and related parts and titanium coils are sourced from overseas and are mainly transacted in USD. In addition, plastic resins which are sourced from local suppliers are also subject to foreign currency fluctuation as it may be imported by our local suppliers.

| | **Audited** | | | | | |
|---|---|---|---|---|---|---|
| | **FYE 2017** | | **FYE 2018** | | **FYE 2019** | |
| Purchases in: | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| RM | 17,187 | 90.79 | 27,931 | 85.98 | 29,689 | 89.79 |
| USD | 1,726 | 9.12 | 4,448 | 13.69 | 3,198 | 9.67 |
| VND | 17 | 0.09 | 103 | 0.32 | 170 | 0.51 |
| THB | - | - | 4 | 0.01 | 9 | 0.03 |

| | **Unaudited** | | **Audited** | |
|---|---|---|---|---|
| | **FPE 2019** | | **FPE 2020** | |
| Purchases in: | **RM'000** | **%** | **RM'000** | **%** |
| RM | 21,368 | 88.04 | 24,234 | 94.42 |
| USD | 2,755 | 11.35 | 1,375 | 5.36 |
| VND | 147 | 0.60 | 56 | 0.22 |
| THB | * | * | * | * |

Note:

* Negligible.

Based on the above, any appreciation or depreciation of the USD against RM will significantly affect our cost of supplies.

Our Group does not hedge our exposure to fluctuations in foreign currency exchange rates. As at the LPD, we have not entered into any foreign exchange contracts. As such, we are subject to foreign exchange fluctuation risk for the purchase of our supplies and revenue from our foreign sales.

There is a lead time between project awarded to project delivery of approximately 12 months, depending on the size of the project. This exposes us to foreign exchange fluctuation risks as we are unable to accurately price in all possible future depreciation of RM which may cause the revenue to be received from sales to be less than originally anticipated.

In the event that we are unable to pass the increase in cost to our customers in a timely manner, our financial performances may be adversely affected due to the reduced GP margin from higher cost of supplies.

**(ii) Fluctuation in the prices of our raw materials**

The prices of certain raw materials such as plastic resins and mild steel are subject to fluctuations as a result of global demand and supply conditions. As such, any material increase in the prices of the abovementioned supplies may result in substantial increase in our cost of sales, thus affecting our financial performance should we fail to pass the increase in cost to our customers.

Nonetheless, most of our material purchases are only made upon receipt of confirmed orders from our customers which minimise the impact of any adverse price fluctuations in our raw materials. Our suppliers regularly keep us abreast of the supply condition and price trend of our raw materials so we may be prepared for any price increase.

**(iii) Competition from other industry players and new market entrants**

Our Group faces competition from other industry players and new market entrants who may also be capable of offering similar solutions. Whilst we strive to remain competitive, there can be no assurance that any changes in the competitive environment would not have any material and adverse impact on our business and financial performance. We believe that our Group would be able to stay competitive due to our strengths as outlined in Section 6.8.

**(iv) We are dependent on our major customers and do not have long term agreements with them**

We have not entered into any long-term contracts with all our customers as our Group's sales are derived based on purchase orders whereby our customers will purchase our products/services on a project-to-project basis or on an as-needed basis. Thus, we place great emphasis in developing long-term business relationships with our customers as we believe this will ensure our business continuity and growth.

For the past 3 FYEs and FPE 2020, our major customers contributed between 77.60% to 86.75% of our revenue. Our major customers for the past 3 FYEs and FPE 2020 are as follows:

| No. | Major customers for the past 3 FYEs and FPE 2020 | Country |
|---|---|---|
| 1. | **Hartalega Group**<br>Hartalega Sdn Bhd, Hartalega NGC Sdn Bhd and Hartalega Research Sdn Bhd | Malaysia |
| 2. | **Kossan Group**<br>Kossan Latex Industries (M) Sdn Bhd, Ideal Quality Sdn Bhd, Perusahaan Getah Asas Sdn Bhd and Wear Safe (Malaysia) Sdn Bhd | Malaysia |
| 3. | **Riverstone Group**<br>Riverstone Resources Sdn Bhd and Eco Medi Glove Sdn Bhd | Malaysia |
| 4. | **Sri Trang Group**<br>Premier System Engineering Co Ltd, Sri Trang Gloves (Thailand) Co Ltd (previously known as Siam Sempermed Corp Ltd) and Sri Trang Gloves (Thailand) Public Co Ltd | Thailand |
| 5. | **YTY Group**<br>Green Prospect Sdn Bhd and YTY Industry Sdn Bhd | Malaysia |
| 6. | Central Medicare Sdn Bhd | Malaysia |
| 7. | Ever Global (Vietnam) Enterprise Corporation | Vietnam |

We have established long-term business relationships of more than 8 years with 4 of our top 5 customers for FPE 2020.

**(v) Interruptions in our business operations**

Our business operations could be disrupted or delayed due to unforeseeable circumstances. Such risks include, amongst others, equipment failures, fire or flood as well as environment factors (including natural disaster and outbreak of diseases).

Any prolonged interruptions to our business operations due to such factors will affect our ability in adhering to our project timeline which could have an adverse impact on our business operations, relationship with customers, financial performance and industry reputation.

Kindly refer to Sections 6.7.4 and 8.1.1 on the impact of Covid-19 virus pandemic on our Group.

### 11.2.2 Revenue

**(i) Revenue by principal activities**

| | Audited | | | | | |
|---|---|---|---|---|---|---|
| | FYE 2017 | | FYE 2018 | | FYE 2019 | |
| | RM'000 | % | RM'000 | % | RM'000 | % |
| Glove chlorination systems | 19,150 | 64.04 | 34,708 | 71.83 | 31,310 | 62.82 |
| Repair, refurbishment and maintenance | 3,691 | 12.34 | 3,728 | 7.71 | 1,978 | 3.97 |
| Trading of replacement parts | 3,245 | 10.85 | 3,300 | 6.83 | 2,658 | 5.33 |
| Storage and process tanks | 1,962 | 6.56 | 3,981 | 8.24 | 9,967 | 20.00 |
| Other products and services | 1,854 | 6.21 | 2,605 | 5.39 | 3,926 | 7.88 |
| | **29,902** | **100.00** | **48,322** | **100.00** | **49,839** | **100.00** |

| | Unaudited | | Audited | |
|---|---|---|---|---|
| | FPE 2019 | | FPE 2020 | |
| | RM'000 | % | RM'000 | % |
| Glove chlorination systems | 23,135 | 65.93 | 20,378 | 58.21 |
| Repair, refurbishment and maintenance | 1,605 | 4.57 | 1,547 | 4.42 |
| Trading of replacement parts | 2,150 | 6.13 | 2,431 | 6.94 |
| Storage and process tanks | 5,556 | 15.83 | 7,438 | 21.25 |
| Other products and services | 2,647 | 7.54 | 3,213 | 9.18 |
| | **35,093** | **100.00** | **35,007** | **100.00** |

**(a) Sales of glove chlorination systems**

Revenue from this segment is derived from our design, engineering, installation and commissioning of glove chlorination systems.

For the financial years/period under review, revenue contributed by our sale of glove chlorination systems segment was derived from our customers based in Malaysia as well as foreign countries including Vietnam, Thailand, Indonesia and Sri Lanka.

Revenue from contracts with customers is recognised at a point in time once control of the asset is transferred to the customers generally on delivery of products and customers' acceptance.

Upon the confirmation of sales order, our customers will issue purchase orders to us and we generally collect project deposits of between 15% – 30% of our order value from our customers.

The pricing of our products varies from customer to customer as they are made to customers' specifications and are generally determined based on factors such as materials used, production parameters, dimensional measurement, process complexity and logistics arrangement.

Premised on this, the number of glove chlorination systems completed by us on an annual basis may not correspond to our overall revenue or profitability for a given year as the value of order for each glove chlorination systems recognised in any given year varies from one to another depending on pricing differential due to:

(i) Quality of materials used, such as higher grade/quality FRP materials, insulation and titanium coil, which will accordingly increase the price of a glove chlorination systems; and

(ii) Logistics arrangement, where foreign orders are generally priced higher relative to local orders.

**(b) Repair, refurbishment and maintenance**

Revenue from this segment is derived from services comprising the provision of fault rectification, efficiency improvement and maintenance of our customers' existing chlorination systems upon request from customers. Save for the fault rectification services undertaken during the warranty period, we will charge our customers for these services.

Our charges for repair, refurbishment and maintenance will depend on the complexity of the works to be undertaken and location of our customer's system and will vary from customer to customer.

**(c) Trading of replacement parts**

Revenue from this segment is derived from sale of replacement parts for glove chlorination systems. We adopt a cost-plus pricing strategy for products sold under our trading segment.

**(d) Sale of storage tanks and process tanks**

Revenue from this segment is derived from the sale of customised storage tanks and process tanks used in the glove manufacturing process. These storage tanks and process tanks are designed by us and manufactured by our subcontractors. Our customers for storage tanks and process tanks mainly comprise glove manufacturers and glove-dipping line manufacturers.

Our storage tanks are generally made from FRP materials or mild steel (lined with FRP materials), while process tanks are solely made from FRP materials.

Upon the confirmation of sales order, our customers will issue purchase orders to us and we generally collect project deposits of between 15% – 30% of our order value from our customers.

The pricing of our storage tanks and process tanks varies from customer to customer as they are made to customers' specifications and are generally determined based on factors such as materials used, production parameters, dimensional measurement, process complexity and logistics arrangement.

**(e) Other products and services**

Revenue from this segment is derived from the provision of FRP lining services on trenches, pits and floors. Further, we also design and install scrubber system on a standalone basis to draw out the acid fumes from the cleaning area of glove moulds.

The FRP lining services are provided to our customers directly by us or through our subcontractors while the installation of scrubber system is provided to our customers directly by us. Our customers for FRP lining services and scrubber systems mainly comprise glove manufacturers, glove-dipping line manufacturers and water treatment plants.

The pricing of the FRP lining services is based on the surface area required to be covered by FRP materials.

The pricing of our scrubber systems varies from customer to customer as they are made to customers' specifications and are generally determined based on factors such as dimensional measurement, process complexity and logistics arrangement.

**(ii) Revenue by geographical segmentation**

| | Audited | | | | | |
|---|---|---|---|---|---|---|
| | FYE 2017 | | FYE 2018 | | FYE 2019 | |
| **Countries** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| **Local** | | | | | | |
| Malaysia | 24,464 | 81.81 | 37,721 | 78.06 | 33,982 | 68.18 |
| **Overseas** | | | | | | |
| Vietnam | 2,602 | 8.70 | 8,798 | 18.21 | 10,344 | 20.75 |
| Thailand | 2,704 | 9.04 | 1,695 | 3.51 | 5,371 | 10.78 |
| Indonesia | 130 | 0.43 | 58 | 0.12 | 93 | 0.19 |
| Sri Lanka | 2 | 0.02 | 50 | 0.10 | 49 | 0.10 |
| | 5,438 | 18.19 | 10,601 | 21.94 | 15,857 | 31.82 |
| | **29,902** | **100.00** | **48,322** | **100.00** | **49,839** | **100.00** |

## 11. FINANCIAL INFORMATION *(Cont'd)*

| | Unaudited | | Audited | |
|---|---|---|---|---|
| | FPE 2019 | | FPE 2020 | |
| **Countries** | **RM'000** | **%** | **RM'000** | **%** |
| **Local** | | | | |
| Malaysia | 21,954 | 62.56 | 30,203 | 86.28 |
| **Overseas** | | | | |
| Vietnam | 8,389 | 23.91 | 1,535 | 4.38 |
| Thailand | 4,643 | 13.23 | 3,059 | 8.74 |
| Indonesia | 67 | 0.19 | 24 | 0.07 |
| Sri Lanka | 40 | 0.11 | 186 | 0.53 |
| | 13,139 | 37.44 | 4,804 | 13.72 |
| | **35,093** | **100.00** | **35,007** | **100.00** |

**(iii) Revenue by subsidiaries**

For the past 3 FYEs and FPE 2020, our Group's revenue is contributed solely from Flexidynamic Engineering. However, the assembly, installation, commissioning and maintenance of our glove chlorination systems, storage tanks and process tanks for our overseas customers are handled by Flexidynamic Thailand on behalf of Flexidynamic Engineering.

As such, all revenue recorded by Flexidynamic Thailand is from Flexidynamic Engineering and is eliminated on consolidation. Flexidynamic Thailand has not recorded any external revenue for the past 3 FYEs and FPE 2020.

**(iv) Commentary on revenue**

**(a) Comparison between FYE 2017 and FYE 2018**

Our revenue increased by RM18.42 million or 61.61% from RM29.90 million in the preceding financial year to RM48.32 million in FYE 2018. The increase was mainly contributed by sales of glove chlorination systems which comprised 71.83% of our total revenue for FYE 2018.

Sales of glove chlorination systems was our main source of revenue and was contributed by sales to the Hartalega Group (RM10.61 million) and sales to Ever Global (Vietnam) Enterprise Corporation (RM7.93 million) in FYE 2018. We recorded increase in sales of glove chlorination systems to Hartalega Group by RM5.33 million or 100.96% and to Ever Global (Vietnam) Enterprise Corporation by RM5.33 million or 204.92%, which was in line with the Hartalega Group and Ever Global (Vietnam) Enterprise Corporation's plan to expand their production capacity.

During FYE 2018, we recorded revenue from the sales of storage tanks and process tanks of RM3.98 million or 8.24% of our total revenue, which represent an increase by RM2.02 million from the preceding year. The increase was mainly due to sales to YTY Group (RM1.73 million), Central Medicare Sdn Bhd (RM0.48 million), Sama Kejuruteraan Sdn Bhd (RM0.34 million) and Smart Glove Corporation Sdn Bhd (RM0.34 million).

Revenue from other product and services includes provision of FRP lining services and scrubber systems increased by RM0.75 million or 40.32% to RM2.61 million during FYE 2018. The sales were mainly to the Hartalega Group (RM0.91 million), Riverstone Group (RM0.54 million) and YTY Group (RM0.22 million).

During FYE 2018, we recorded marginal increase in revenue recorded from repair, refurbishment and maintenance by RM0.04 million as well as marginal increase in revenue recorded from trading of replacement parts by RM0.06 million as compared to the preceding year.

Geographically, our sales contribution from Malaysia was lower at 78.06% in FYE 2018 as compared to 81.81% recorded in FYE 2017. This was due to the increase of sales to customer from Vietnam, namely Ever Global (Vietnam) Enterprise Corporation (for sale of glove chlorination systems) which contributed RM7.93 million or 16.40% of total revenue.

**(b) Comparison between FYE 2018 and FYE 2019**

Our revenue increased by RM1.52 million or 3.15% from RM48.32 million in FYE 2018 to RM49.84 million in FYE 2019.

Similar to the preceding financial year, our revenue was mainly contributed by sales of glove chlorination systems which amounted to 62.82% of total sales. However, we recorded a decrease in revenue from glove chlorination systems by RM3.40 million or 9.80% in FYE 2019 which was attributable to the decrease in sales to Central Medicare Sdn Bhd by RM3.12 million, the Hartalega Group by RM1.13 million and Smart Glove Corporation Sdn Bhd by RM1.00 million.

Sale of glove chlorination systems during FYE 2019 was mainly to the Hartalega Group which amounted to RM9.48 million (FYE 2018: RM10.61 million) and sales to Ever Global (Vietnam) Enterprise Corporation of RM10.15 million.

Nevertheless, the decrease in sale of glove chlorination systems was offset by an increase in sale of storage tanks and process tanks. During FYE 2019, we recorded an increase in sales of storage tanks and process tanks by RM5.99 million. This is contributed from the sale of a new product (launched in second half of FYE 2018), namely FRP-lined mild steel storage tank, amounting to RM7.96 million (FYE 2018: RM1.20 million). The sales of storage tanks and process tanks were mainly to the Hartalega Group (RM7.68 million).

The revenue from other product and services such as FRP lining services and scrubber systems increased by RM1.32 million or 50.57% which was mainly contributed by the Hartalega Group (RM0.73 million) and Ideal Quality Sdn Bhd (RM0.52 million).

During FYE 2019, revenue recorded from repair, refurbishment and maintenance as well as trading of replacement parts decreased by 46.94% and 19.45% respectively, which was mainly due to lower sales to the Hartalega Group as compared to FYE 2018 where the Hartalega Group had increased its refurbishment of on-line chlorination system. In FYE 2018, the Hartalega Group had increased its purchase of replacement parts such as PVC packing media and control valves.

We recorded a decrease in sales in Malaysia of RM3.74 million or 9.92% from RM37.72 million in FYE 2018 to RM33.98 million in FYE 2019. Sales from our overseas market has increased by RM5.26 million or 49.62% from RM10.60 million in FYE 2018 to RM15.86 million in FYE 2019 mainly due to increase in sales to customer from Vietnam, namely Ever Global (Vietnam) Enterprise Corporation (for sale of glove chlorination systems and trading of replacement parts). Sales to Thailand had also increased during FYE 2019 which was contributed by Sri Trang Group (for sale of glove chlorination systems, scrubber systems, provision of FRP lining services and trading of replacement parts).

**(c) Comparison between FPE 2019 and FPE 2020**

Our revenue decreased marginally by RM0.08 million or 0.23% from RM35.09 million in FPE 2019 to RM35.01 million in FPE 2020.

Similar to the preceding financial period, our revenue was mainly contributed by sales of glove chlorination systems which amounted to 58.21% of total sales. However, we recorded a decrease in revenue from glove chlorination systems by RM2.76 million or 11.93% in FPE 2020 which was attributable to the decrease in sales to Ever Global (Vietnam) Enterprise Corporation by RM6.80 million and Ideal Quality Sdn Bhd by RM2.38 million.

Sale of glove chlorination systems during FPE 2020 was mainly to Central Medicare Sdn Bhd which amounted to RM6.70 million (FPE 2019: RM0.85 million) and the Hartalega Group which amounted to RM5.60 million (FPE 2019: RM5.83 million).

Nevertheless, the decrease in sale of glove chlorination systems was offset by an increase in sale of storage tanks and process tanks. During FPE 2020, we recorded an increase in sales of storage tanks and process tanks by RM1.88 million. The sales of storage tanks and process tanks were mainly to the YTY Group of RM3.13 million and the Hartalega Group of RM1.76 million.

The revenue from other product and services such as FRP lining services and scrubber systems increased by RM0.57 million or 21.53% which was mainly contributed by the Hartalega Group (RM1.45 million) and the YTY Group (RM0.48 million).

The revenue from trading of replacement parts increased by RM0.28 million 13.02% which was mainly contributed by the Hartalega Group (RM1.15 million) and the Kossan Group (RM0.35 million).

During FPE 2020, revenue recorded from repair, refurbishment and maintenance decreased marginally by 3.61% which was mainly due to lower sales to the Hartalega Group as compared to FPE 2020 as the Hartalega Group had decreased its refurbishment of on-line chlorination system by RM0.09 million.

We recorded an increase in sales in Malaysia of RM8.25 million or 37.59% from RM21.95 million in FPE 2019 to RM30.20 million in FPE 2020. Sales from our overseas market decreased by RM8.34 million or 63.47% from RM13.14 million in FPE 2019 to RM4.80 million in in FPE 2020 mainly due to decrease in sales to customer from Vietnam, namely Ever Global (Vietnam) Enterprise Corporation (for sale of glove chlorination systems and trading of replacement parts) from RM8.28 million in FPE 2019 to RM1.48 million in FPE

2020. Sales to Thailand had also decreased during FPE 2020 which was due to decrease in sales to Sri Trang Group (for sale of glove chlorination systems, scrubber systems, provision of FRP lining services and trading of replacement parts) from RM4.54 million in FPE 2019 to RM2.61 million in FPE 2020. The decrease in foreign sales during FPE 2020 was due to the completion of the majority of overseas projects during FYE 2019. Nevertheless we have secured new projects from customers in Thailand and Vietnam during FPE 2020 and the revenue from these new projects shall be recognised after FPE 2020.

### 11.2.3 Cost of sales, GP and GP margin

#### (i) Analysis of cost of sales by cost items

The components of our cost of sales are as follows:

| | Audited | | | | | |
|---|---|---|---|---|---|---|
| | **FYE 2017** | | **FYE 2018** | | **FYE 2019** | |
| | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| Supplies | 15,031 | 70.09 | 24,608 | 67.74 | 22,235 | 61.96 |
| Subcontractor cost | 3,754 | 17.50 | 7,423 | 20.43 | 10,084 | 28.10 |
| Direct labour | 1,773 | 8.27 | 2,390 | 6.58 | 1,843 | 5.14 |
| Factory expenses | 625 | 2.91 | 1,194 | 3.28 | 944 | 2.63 |
| Transportation cost | 126 | 0.59 | 440 | 1.21 | 330 | 0.92 |
| Rental of machinery | 138 | 0.64 | 276 | 0.76 | 447 | 1.25 |
| | **21,447** | **100.00** | **36,331** | **100.00** | **35,883** | **100.00** |

| | **Unaudited** | | **Audited** | |
|---|---|---|---|---|
| | **FPE 2019** | | **FPE 2020** | |
| | **RM'000** | **%** | **RM'000** | **%** |
| Supplies | 16,528 | 61.03 | 16,678 | 61.08 |
| Subcontractor cost | 7,540 | 27.84 | 8,223 | 30.11 |
| Direct labour | 1,712 | 6.32 | 925 | 3.39 |
| Factory expenses | 793 | 2.93 | 850 | 3.11 |
| Transportation cost | 275 | 1.02 | 393 | 1.44 |
| Rental of machinery | 232 | 0.86 | 237 | 0.87 |
| | **27,080** | **100.00** | **27,306** | **100.00** |

#### (a) Supplies

Our Group's supplies consist of raw materials consumed in-house by our Group and provided to our subcontractors for the manufacturing of parts and components used in glove manufacturing line; and monitoring and control instruments.

The breakdown of our cost of sales (supplies) for the past 3 FYEs and FPE 2020 are as follows:

| | Audited | | | | | |
|---|---|---|---|---|---|---|
| | FYE 2017 | | FYE 2018 | | FYE 2019 | |
| **Supplies** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| Raw materials | 6,960 | 46.30 | 12,605 | 51.22 | 9,117 | 41.00 |
| - Plastic resins | 2,701 | 17.97 | 6,351 | 25.81 | 4,440 | 19.97 |
| - FRP materials [(1)] and FRP grating | 1,150 | 7.65 | 2,498 | 10.15 | 1,616 | 7.27 |
| - PVC pipes and fittings, PP and PVC sheets | 2,057 | 13.68 | 2,508 | 10.19 | 2,518 | 11.32 |
| - Mild steel | 468 | 3.11 | 1,079 | 4.38 | 437 | 1.96 |
| - Sawn timber | 584 | 3.89 | 169 | 0.69 | 106 | 0.48 |
| Monitoring and control instruments | 7,003 | 46.59 | 10,410 | 42.30 | 11,234 | 50.53 |
| - Chlorination gas system and related parts | 2,413 | 16.05 | 2,508 | 10.19 | 2,922 | 13.14 |
| - Circulation pumps, gears and motors and related parts | 1,648 | 10.96 | 3,038 | 12.35 | 2,807 | 12.63 |
| - Control panel system, control valves and pressure transmitter and gauge | 1,758 | 11.70 | 3,140 | 12.76 | 3,791 | 17.05 |
| - Titanium coil | 1,002 | 6.67 | 1,386 | 5.63 | 1,375 | 6.18 |
| - Bolts and nuts and electric chain hoist | 182 | 1.21 | 338 | 1.37 | 339 | 1.53 |
| Others [(2)] | 1,068 | 7.11 | 1,593 | 6.48 | 1,884 | 8.47 |
| **Cost of sales (supplies)** | **15,031** | **100.00** | **24,608** | **100.00** | **22,235** | **100.00** |

| | Unaudited | | Audited | |
|---|---|---|---|---|
| | FPE 2019 | | FPE 2020 | |
| **Supplies** | **RM'000** | **%** | **RM'000** | **%** |
| Raw materials | 7,336 | 44.38 | 7,169 | 42.99 |
| - Plastic resins | 3,242 | 19.62 | 3,128 | 18.76 |
| - FRP materials [(1)] and FRP grating | 1,390 | 8.41 | 1,490 | 8.94 |
| - PVC pipes and fittings, PP and PVC sheets | 1,982 | 11.99 | 1,481 | 8.88 |
| - Mild steel | 637 | 3.85 | 976 | 5.85 |
| - Sawn timber | 85 | 0.51 | 94 | 0.56 |
| Monitoring and control instruments | 8,061 | 48.78 | 7,911 | 47.43 |
| - Chlorination gas system and related parts | 2,077 | 12.57 | 2,370 | 14.21 |
| - Circulation pumps, gears and motors and related parts | 2,023 | 12.24 | 2,303 | 13.81 |

| | Unaudited | | Audited | |
|---|---|---|---|---|
| | FPE 2019 | | FPE 2020 | |
| **Supplies** | **RM'000** | **%** | **RM'000** | **%** |
| - Control panel system, control valves and pressure transmitter and gauge | 2,535 | 15.34 | 2,059 | 12.35 |
| - Titanium coil | 1,153 | 6.98 | 1,058 | 6.34 |
| - Bolts and nuts and electric chain hoist | 273 | 1.65 | 121 | 0.72 |
| Others (2) | 1,131 | 6.84 | 1,598 | 9.58 |
| **Cost of sales (supplies)** | **16,528** | **100.00** | **16,678** | **100.00** |

Notes:

(1) FRP materials comprise chop strand mat, roving, additives and synthetic surface veil and tissue mat.

(2) Others comprise bearings, couplings, mould release wax and polycarbonate sheet.

The percentage breakdown between supplies sourced locally and overseas is as follows:

| | Audited | | |
|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** |
| **Source** | **%** | **%** | **%** |
| Local | 90.79 | 85.98 | 89.79 |
| Overseas | 9.21 | 14.02 | 10.21 |

| | Unaudited | Audited |
|---|---|---|
| | **FPE 2019** | **FPE 2020** |
| **Source** | **%** | **%** |
| Local | 88.04 | 94.42 |
| Overseas | 11.96 | 5.58 |

All our suppliers are evaluated in terms of pricing and technical specifications of supplies, ability to meet our quality requirements and ability to deliver in a timely manner. Whilst we have maintained long term business relationship with our existing suppliers, we also source for supplies from new suppliers, if the need arises.

**(b) Subcontractor cost**

Manufacturing works for our glove chlorination systems, storage tanks and process tanks, scrubber towers, chimneys, ductings, control panels and its electrical wiring and related equipment are outsourced to our subcontractors, except for the manufacturing of off-line glove chlorination systems, wooden moulds for subcontractors and centrifugal fans. We also employ a chlorine gas specialist for the setting up of chlorination gas systems, including the assembly and installation of its related equipment on site.

Subcontractors' charges include manufacturing charges, loading fees for delivery of products and installation fees. FRP-lined mild steel storage tanks sold are designed by us and manufactured by our subcontractors where the subcontractor charges include steel materials.

**(c) Direct labour**

Direct labour mainly consists of salaries, bonuses, overtime expenses and staff-related expenses for foreign workers.

**(d) Factory expenses**

Factory expenses consist of consumables such as tools and accessories as well as upkeep of machinery and factory.

**(e) Transportation cost**

Transportation cost includes the cost for the delivery of finished goods to our customers' sites for assembly/installation using our own trucks and/or third party transportation companies.

**(f) Rental of machinery**

Includes rental of crane for assembly/installation and forklifts.

**(ii) Analysis of cost of sales by subsidiaries**

| | Audited | | | | | |
|---|---|---|---|---|---|---|
| | FYE 2017 | | FYE 2018 | | FYE 2019 | |
| **Subsidiaries** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| Flexidynamic Engineering | 21,050 | 98.15 | 35,746 | 98.39 | 35,091 | 97.79 |
| Flexidynamic Thailand | 397 | 1.85 | 585 | 1.61 | 792 | 2.21 |
| | **21,447** | **100.00** | **36,331** | **100.00** | **35,883** | **100.00** |

| | Unaudited | | Audited | |
|---|---|---|---|---|
| | FPE 2019 | | FPE 2020 | |
| **Subsidiaries** | **RM'000** | **%** | **RM'000** | **%** |
| Flexidynamic Engineering | 26,464 | 97.73 | 26,892 | 98.48 |
| Flexidynamic Thailand | 616 | 2.27 | 414 | 1.52 |
| | **27,080** | **100.00** | **27,306** | **100.00** |

The table above sets out our cost of sales by subsidiaries (after inter-company transaction eliminations) for the FYEs/FPE under review.

Flexidynamic Thailand is involved in the installation and maintenance of glove chlorination systems, storage tanks and process tanks for our overseas projects. For overseas projects, the required parts and components for our glove chlorination systems are sourced by Flexidynamic Engineering and delivered to our customers' sites overseas for installation by Flexidynamic Thailand. Cost of sales of Flexidynamic Thailand comprised mainly employees related cost and purchases such as tools and accessories.

**(iii) Analysis of GP and GP margin by principal activities**

Our GP and GP margin for the financial years/period under review are set out below:

| | Audited | | |
|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** |
| | **RM'000** | **RM'000** | **RM'000** |
| Revenue | 29,902 | 48,322 | 49,839 |
| Cost of sales | (21,447) | (36,331) | (35,883) |
| GP | 8,455 | 11,991 | 13,956 |
| GP margin (%) | 28.28 | 24.81 | 28.00 |

| | **Unaudited** | **Audited** |
|---|---|---|
| | **FPE 2019** | **FPE 2020** |
| | **RM'000** | **RM'000** |
| Revenue | 35,093 | 35,007 |
| Cost of sales | (27,080) | (27,306) |
| GP | 8,013 | 7,701 |
| GP margin (%) | 22.83 | 22.00 |

Our GP and GP margin for the financial years/period under review by principal activities is set out below:

| | **Audited** | | | | | |
|---|---|---|---|---|---|---|
| | **FYE 2017** | | **FYE 2018** | | **FYE 2019** | |
| | **GP** | **GP margin** | **GP** | **GP margin** | **GP** | **GP margin** |
| | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| Glove chlorination systems | 6,145 | 32.08 | 9,945 | 28.65 | 9,661 | 30.86 |
| Repair, refurbishment and maintenance | 726 | 19.68 | 373 | 10.01 | 400 | 20.19 |
| Trading of replacement parts | 874 | 26.95 | 633 | 19.20 | 650 | 24.45 |
| Storage and process tanks | 424 | 21.62 | 764 | 19.20 | 2,459 | 24.67 |
| Other products and services | 286 | 15.40 | 276 | 10.56 | 786 | 20.02 |
| | **8,455** | **28.28** | **11,991** | **24.81** | **13,956** | **28.00** |

| | Unaudited | | Audited | |
|---|---|---|---|---|
| | FPE 2019 | | FPE 2020 | |
| | GP | GP margin | GP | GP margin |
| | RM'000 | % | RM'000 | % |
| Glove chlorination systems | 5,461 | 23.60 | 4,444 | 21.81 |
| Repair, refurbishment and maintenance | 294 | 18.32 | 288 | 18.62 |
| Trading of replacement parts | 440 | 20.49 | 555 | 22.83 |
| Storage and process tanks | 1,283 | 23.09 | 1,787 | 24.03 |
| Other products and services | 535 | 20.21 | 627 | 19.51 |
| | **8,013** | **22.83** | **7,701** | **22.00** |

**(iv) Analysis of GP and GP margin by subsidiaries**

| | Audited | | | | | |
|---|---|---|---|---|---|---|
| | FYE 2017 | | FYE 2018 | | FYE 2019 | |
| | GP/(GL) | GP margin | GP/(GL) | GP margin | GP/(GL) | GP margin |
| | RM'000 | % | RM'000 | % | RM'000 | % |
| Flexidynamic Engineering | 8,852 | 29.60 | 12,576 | 26.03 | 14,748 | 29.59 |
| Flexidynamic Thailand | (397) | * | (585) | * | (792) | * |
| | **8,455** | **28.28** | **11,991** | **24.81** | **13,956** | **28.00** |

| | Unaudited | | Audited | |
|---|---|---|---|---|
| | FPE 2019 | | FPE 2020 | |
| | GP/(GL) | GP margin | GP/(GL) | GP margin |
| | RM'000 | % | RM'000 | % |
| Flexidynamic Engineering | 8,629 | 24.59 | 8,115 | 23.18 |
| Flexidynamic Thailand | (616) | * | (414) | * |
| | **8,013** | **22.83** | **7,701** | **22.00** |

Note:

* Not applicable due to gross loss ("GL") recorded.

Flexidynamic Engineering is the only contributor of our GP for the FYEs/FPE under review. Flexidynamic Thailand recorded gross loss after inter-company transaction eliminations as it does not generate income but incurred cost of sales for the installation and maintenance of glove chlorination systems, storage tanks and process tanks for our overseas projects secured by Flexidynamic Engineering.

**(v) Commentary on cost of sales, GP and GP margin**

**(aa) Comparison between FYE 2017 and FYE 2018**

Our cost of sales increased by RM14.88 million or 69.37% to RM36.33 million in FYE 2018, which is in tandem with the increase in our total revenue of RM18.42 million or 61.61%. Corresponding to the increase in sales, we recorded increase in supplies cost by RM9.58 million or 63.73% as we utilise more supplies in the manufacturing of glove chlorination systems.

Our subcontractor cost and direct labour increased by RM3.67 million or 97.76% and by RM0.62 million or 34.97% respectively mainly due to the increase in the sales of glove chlorination systems by RM15.56 million or 81.25% during FYE 2018.

In addition, factory expenses increased by RM0.57 million or 91.20% as we purchased a higher volume of consumables which are used in the manufacturing of our products.

In FYE 2018, our GP increased by RM3.54 million or 41.87% contributed mainly from the increase in sale of glove chlorination systems.

Nevertheless, the GP margin decreased from 28.28% in FYE 2017 to 24.81% in the FYE 2018. We recorded decrease in GP margin for all principal activities, as follows:

**(a) Glove chlorination systems**

The GP margin for glove chlorination systems has decreased from 32.08% in FYE 2017 to 28.65% in FYE 2018 due to the following:

(i) During FYE 2018, we recorded a 81.24% increase sales of glove chlorination systems. In order to cater to such increases, we incur:

(1) higher subcontractor cost due to an increase in overtime charges by the subcontractors; and

(2) higher direct labour due to the overtime expenses paid to the Group's workers,

(ii) Increase in price of plastic resins by 8.04% from a weighted average of RM8.83/kg in FYE 2017 to RM9.54/kg in FYE 2018. Plastic resins are used for our glove chlorination systems.

**(b) Repair, refurbishment and maintenance**

The GP margin for repair, refurbishment and maintenance has decreased from 19.68% in FYE 2017 to 10.01% in FYE 2018 due to the following:

(i) Increased direct labour cost as a result of overtime expenses paid to the Group's workers; and

(ii) Increase in price of plastic resins which are used in the repair, refurbishment and maintenance works.

**(c) Trading of replacement parts**

During FYE 2018, the products sold under the trading of replacement parts mainly consists pressure transmitters and gauges as well as control valves which carried lower GP margins, hence contributing to lower GP margin for FYE 2018 of 19.20% as compared to 26.95% in FYE 2017.

**(d) Storage tanks and process tanks**

The GP margin for sale of storage tanks and process tanks has decreased from 21.62% in FYE 2017 to 19.20% in FYE 2018 due to the following:

(i) During FYE 2018, we recorded a 102.91% increase in sales of storage tanks and process tanks. In order to cater to such increases, we incurred:

(1) higher subcontractors cost due to an increase in overtime charges by the subcontractors; and

(2) higher direct labour due to the overtime expenses paid to the Group's workers,

(ii) Increase in price of plastic resins which are used in the manufacturing of storage tanks and process tanks.

**(e) Other products and services**

The other products and services comprise provision of FRP lining services as well as design and installation of scrubber system.

The decrease in the GP margin for other product and services from 15.40% in FYE 2017 to 10.56% in FYE 2018 is due to:

(i) Increase in price of plastic resins which are used for FRP lining services and in the manufacturing of scrubber system;

(ii) Increase in labour charges for the FRP lining services and installation of scrubber system due to the overtime expenses paid to the Group's workers; and

(iii) Increase in subcontractor cost for the manufacturing of scrubber system due to an increase in overtime charges by the subcontractors.

**(bb) Comparison between FYE 2018 and FYE 2019**

Our cost of sales decreased by RM0.45 million or 1.24% to RM35.88 million in FYE 2019.

In FYE 2019, we recorded decrease in supplies cost by RM2.37 million or 9.63% mainly due to lower utilisation of plastic resins of RM1.91 million in FYE 2019. Plastic resins are mainly used in the manufacturing of storage tanks and process tanks which are made from FRP materials. The manufacture of these tanks are subcontracted where we supply the moulds and plastic resins while the subcontractors provide the manufacturing service. As such, due to the lower volume of FRP storage tanks sold, we recorded decrease in supplies cost.

FRP-lined mild steel storage tanks sold are designed by us and manufactured by our subcontractors where the subcontractor charges include steel materials. As such, due to the higher volume of FRP-lined mild steel storage tanks sold in FYE 2019, we recorded increase in subcontractor cost by RM2.66 million.

Our direct labour cost decreased by RM0.55 million or 23.01% as we recorded lower revenue contribution from the sale of glove chlorination systems, which is more labour intensive.

In FYE 2019, our GP increased by RM1.97 million or 16.43% which was mainly due to the increase in gross profit from sale of storage tanks and process tanks of RM1.70 million.

Our overall GP margin had improved from 24.81% in FYE 2018 to 28.00% in FYE 2019 mainly due to the following:

(i) Higher volume of FRP-lined mild steel storage tanks sold which has a higher GP margin as compared to FRP storage tanks. FRP-lined mild steel storage tanks is a new product which was launched in second half of FYE 2018; and

(ii) We were able to secure higher selling prices for our products/services for foreign sales, in particular sales to Vietnam. This is due to a lack of competitors in Vietnam, which are able to provide similar products/services. During FYE 2019, our sales to Vietnam increased from RM8.80 million to RM10.34 million.

**(cc) Comparison between FPE 2019 and FPE 2020**

Our cost of sales increased marginally by RM0.23 million or 0.85% to RM27.31 million in FPE 2020.

Our business operations was interrupted from 18 March 2020 to 3 May 2020 which had delayed our project delivery schedules and billing schedules for some of our existing projects from the second and third quarter of 2020 to the fourth quarter of 2020.

In order to meet the delivery timeline and complete the projects by the fourth quarter of 2020, we incurred higher subcontractor cost at RM8.22 million or 30.11% of total cost of sales (FPE 2019: RM7.54 million or 27.84% of total cost of sales) due to an increase in overtime charges charged by the subcontractors which led to a lower GP margin of 22.00% (FPE 2019: 22.83%).

Our direct labour cost decreased by RM0.79 million or 46.14% as we recorded lower revenue contribution from the sale of glove chlorination systems, which is more labour intensive.

In FPE 2020, our GP decreased by RM0.31 million or 3.87% which was mainly due to the decrease in GP from sales of glove chlorination system by RM1.02 million.

Our overall GP margin of 22.00% recorded in FPE 2020 which is lower than the GP margin of past FYEs of between 24.81% to 28.28% mainly due the following:

(i) Higher subcontractor cost due to an increase in overtime charges by the subcontractors in order to meet the delivery timeline and complete projects delayed by the MCO by the fourth quarter of 2020; and

(ii) Lower sales of glove chlorination systems to foreign customers where the GP margins are higher as compared to sales to local customers. The decrease in foreign sales during FPE 2020 was due to the completion of the majority of overseas projects during FYE 2019. Nevertheless we have secured new projects from customers in Thailand and Vietnam during FPE 2020 and the revenue from these new projects shall be recognised after FPE 2020.

### 11.2.4 Other income, fair value gain from equity investments and finance income

The breakdown of our other income, fair value gain from equity investments and finance income is as follows:

| | **Audited** | | | | | |
|---|---|---|---|---|---|---|
| | **FYE 2017** | | **FYE 2018** | | **FYE 2019** | |
| | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| **Other income** | | | | | | |
| Gain on disposal of property, plant and equipment | 27 | 4.23 | 12 | 2.90 | 84 | 22.95 |
| Gain on disposal of investment in equity instruments | - | - | - | - | 34 | 9.29 |
| Dividend income | 23 | 3.60 | 55 | 13.29 | 56 | 15.30 |
| Unrealised gain on foreign exchange | - | - | 59 | 14.25 | 131 | 35.79 |
| Others | 1 | 0.16 | 3 | 0.72 | 1 | 0.28 |
| | 51 | 7.99 | 129 | 31.16 | 306 | 83.61 |
| **Fair value gain from equity investments (1)** | 553 | 86.68 | 243 | 58.70 | - | - |
| **Finance income** | | | | | | |
| Interests income | 34 | 5.33 | 42 | 10.14 | 47 | 12.84 |
| Interest cost reversal (2) | - | - | - | - | 13 | 3.55 |
| | 34 | 5.33 | 42 | 10.14 | 60 | 16.39 |
| | **638** | **100.00** | **414** | **100.00** | **366** | **100.00** |

| | Unaudited FPE 2019 RM'000 | Unaudited FPE 2019 % | Audited FPE 2020 RM'000 | Audited FPE 2020 % |
|---|---|---|---|---|
| **Other income** | | | | |
| Gain on disposal of property, plant and equipment | 83 | 28.52 | - | - |
| Gain on disposal of investment in equity instruments | 34 | 11.68 | 325 | 27.31 |
| Dividend income | 41 | 14.09 | - | - |
| Unrealised gain on foreign exchange | 93 | 31.96 | 147 | 12.35 |
| Others | 1 | 0.35 | 140 | 11.77 |
| | 252 | 86.60 | 612 | 51.43 |
| **Fair value gain from equity investments (1)** | - | - | - | - |
| **Reversal for expected credit loss** | - | - | 559 | 46.97 |
| **Finance income** | | | | |
| Interests income | 39 | 13.40 | 19 | 1.60 |
| Interest cost reversal (2) | - | - | - | - |
| | 39 | 13.40 | 19 | 1.60 |
| | **291** | **100.00** | **1,190** | **100.00** |

Notes:

(1) Our equity investments comprise the quoted securities as follows:

| | Audited FYE 2017 RM'000 | Audited FYE 2018 RM'000 | Audited FYE 2019 RM'000 |
|---|---|---|---|
| Ordinary shares quoted in Malaysia | 506 | 275 | - |
| Ordinary shares quoted in Singapore | 1,751 | 2,350 | 2,788 |
| Ordinary shares quoted in Austria | 35 | 35 | 35 |
| | **2,292** | **2,660** | **2,823** |

| | Unaudited FPE 2019 RM'000 | Audited FPE 2020 RM'000 |
|---|---|---|
| Ordinary shares quoted in Malaysia | - | - |
| Ordinary shares quoted in Singapore | 3,003 | - |
| Ordinary shares quoted in Austria | 35 | - |
| | **3,038** | **-** |

Subsequent to FYE 2019, we had disposed the abovementioned equity investments and recorded a gain on disposal of RM0.30 million.

(2) In FYE 2018, Flexidynamic Engineering had extended an interest-free loan amounting to RM0.68 million to our employees for the acquisition of Flexidynamic Engineering Shares. Additional information is set out in Section 6.2.1(a).

Resulting from the said loan, MFRS 9 – Financial Instruments has been applied and RM0.042 million was recorded as other interest cost in FYE 2018. From FYE 2019 onwards, our Group shall record interest cost reversal amounting to RM0.013 million for the next 3 FYEs 2019 to 2021, and RM0.003 million in financial year ending 2022.

**Comparison between FYE 2017 and FYE 2018**

In FYE 2017, other income comprises mainly gain on disposal of property, plant and equipment and dividend income. In FYE 2018, our Group's other income increased by RM0.08 million mainly due to unrealised gain on foreign exchange of RM0.06 million. Dividend income has also increased by RM0.03 million mainly due to the dividend paid from our investments in shares quoted in Singapore and Malaysia.

We recorded fair value gain from equity investments of RM0.24 million in FYE 2018 as compared to RM0.55 million in the preceding year. The fair value gain from equity investments was mainly contributed by our investments in shares quoted in Singapore.

In FYE 2018, the higher finance income of RM0.01 million was attributable to higher interest income from fixed deposit placed with financial institutions and current account.

**Comparison between FYE 2018 and FYE 2019**

Our Group's other income increased by RM0.18 million to RM0.31 million for FYE 2019. The increase was mainly due to increase in unrealised gain on foreign exchange of RM0.07 million and increase in the gain on disposal of property, plant and equipment of RM0.07 million resulting from disposal of 2 company vehicles. In addition, we recorded a gain from disposal of shares quoted in Malaysia of RM0.03 million.

In FYE 2019, we recorded interest income from fixed deposit and current account totalling RM0.047 million and interest cost reversal amounting to RM0.013 million resulting from the interest-free loan extended to our employees.

**Comparison between FPE 2019 and FPE 2020**

Our Group's other income increased by RM0.36 million to RM0.61 million for FPE 2020. The increase was mainly due to increase in gain on disposal of investment in equity instruments of RM0.29 million where we disposed quoted shares during FPE 2020. During FPE 2020, we received benefits amounting to RM0.09 million from Pertubuhan Keselamatan Sosial (PERKESO).

In FPE 2020, we recorded a reversal on impairment loss of financial asset of RM0.56 million due to the collection of amount due from Smart Glove Corporation Sdn Bhd of RM1.33 million in FPE 2020. Amount due from Sigma Glove Industries Sdn Bhd and GX Corporation Sdn Bhd of RM0.02 million was collected subsequent to FPE 2020.

### 11.2.5 Selling and distribution expenses

The breakdown of our selling and distribution expenses is as follows:

| | Audited | | | | | |
|---|---|---|---|---|---|---|
| | **FYE 2017** | | **FYE 2018** | | **FYE 2019** | |
| | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| Carriage outwards | 50 | 8.25 | 125 | 13.74 | 176 | 20.76 |
| Petrol | 172 | 28.38 | 206 | 22.64 | 186 | 21.93 |
| Road tax and insurance | 33 | 5.45 | 33 | 3.62 | 38 | 4.48 |
| Tolls and parking | 50 | 8.25 | 61 | 6.70 | 62 | 7.31 |
| Travelling | 200 | 33.00 | 350 | 38.46 | 254 | 29.95 |
| Upkeep of motor vehicles | 101 | 16.67 | 135 | 14.84 | 132 | 15.57 |
| | **606** | **100.00** | **910** | **100.00** | **848** | **100.00** |

| | Unaudited | | Audited | |
|---|---|---|---|---|
| | **FPE 2019** | | **FPE 2020** | |
| | **RM'000** | **%** | **RM'000** | **%** |
| Carriage outwards | 118 | 18.29 | 12 | 3.12 |
| Petrol | 136 | 21.09 | 125 | 32.46 |
| Road tax and insurance | 31 | 4.81 | 28 | 7.27 |
| Tolls and parking | 45 | 6.98 | 38 | 9.87 |
| Travelling | 208 | 32.24 | 91 | 23.64 |
| Upkeep of motor vehicles | 107 | 16.59 | 91 | 23.64 |
| | **645** | **100.00** | **385** | **100.00** |

From FYE 2017 to FYE 2019, the selling and distribution expenses had increased mainly due to the increase in carriage outwards charges for delivery of project materials to overseas projects in particular, sales to Ever Global (Vietnam) Enterprise Corporation.

Carriage outwards charges had increased from RM0.05 million in FYE 2017 to RM0.18 million in FYE 2019 due to the shipment of higher volume of project materials to overseas. Apart from that, we recorded selling and distribution expenses including travelling cost by employees to project sites and upkeep of our motor vehicles.

In FPE 2020, the selling and distribution expenses decreased by RM0.26 million or 40.31% as compared to the preceding period. The decrease was mainly due to decrease in travelling expenses by RM0.12 million as the Government has imposed travel ban during the MCO as result of the Covid-19 virus pandemic. In addition, the carriage outwards decreased by RM0.11 million due to lower shipment of project materials to overseas in FPE 2020.

## 11. FINANCIAL INFORMATION *(Cont'd)*

### 11.2.6 Administrative expenses

The breakdown of our administrative expenses is as follows:

| | Audited | | | | | |
|---|---|---|---|---|---|---|
| | FYE 2017 | | FYE 2018 | | FYE 2019 | |
| | RM'000 | % | RM'000 | % | RM'000 | % |
| Marketing cost | 96 | 3.08 | 116 | 2.46 | 216 | 4.36 |
| Bank charges | 7 | 0.21 | 10 | 0.21 | 17 | 0.34 |
| Directors' remuneration | 437 | 14.02 | 540 | 11.47 | 1,039 | 20.96 |
| Staff cost (1) | 1,650 | 52.92 | 3,008 | 63.86 | 2,567 | 51.78 |
| Utility | 129 | 4.14 | 150 | 3.19 | 98 | 1.98 |
| Rental (2) | 443 | 14.21 | 505 | 10.72 | 224 | 4.52 |
| Professional fees (3) | 90 | 2.89 | 96 | 2.04 | 269 | 5.43 |
| R&D expenses | 41 | 1.31 | 14 | 0.30 | 122 | 2.46 |
| Upkeep of office and workers' accommodation | 104 | 3.34 | 138 | 2.93 | 60 | 1.21 |
| Insurance | 73 | 2.34 | 42 | 0.89 | 102 | 2.06 |
| Printing, stationery and postage | 17 | 0.55 | 32 | 0.68 | 31 | 0.63 |
| Upkeep of motor vehicles | 20 | 0.64 | 27 | 0.57 | 63 | 1.27 |
| Depreciation of office equipment | * | * | 2 | 0.04 | 18 | 0.36 |
| Stamp duty and value-added tax | 1 | 0.03 | 16 | 0.34 | 61 | 1.23 |
| Others (4) | 10 | 0.32 | 14 | 0.30 | 70 | 1.41 |
| | **3,118** | **100.00** | **4,710** | **100.00** | **4,957** | **100.00** |

| | Unaudited | | Audited | |
|---|---|---|---|---|
| | FPE 2019 | | FPE 2020 | |
| | RM'000 | % | RM'000 | % |
| Marketing cost | 178 | 4.82 | 287 | 7.16 |
| Bank charges | 14 | 0.38 | 15 | 0.37 |
| Directors' remuneration | 730 | 19.78 | 879 | 21.92 |
| Staff cost (1) | 1,950 | 52.83 | 2,175 | 54.23 |
| Utility | 73 | 1.98 | 89 | 2.22 |
| Rental (2) | 169 | 4.58 | 167 | 4.16 |
| Professional fees (3) | 182 | 4.93 | 181 | 4.51 |
| R&D expenses | 111 | 3.01 | 23 | 0.57 |
| Upkeep of office and workers' accommodation | 42 | 1.14 | 34 | 0.85 |
| Insurance | 71 | 1.92 | 51 | 1.27 |
| Printing, stationery and postage | 20 | 0.54 | 14 | 0.35 |
| Upkeep of motor vehicles | 53 | 1.44 | 46 | 1.15 |
| Depreciation of office equipment | 12 | 0.32 | 19 | 0.47 |
| Stamp duty and value-added tax | 53 | 1.44 | 6 | 0.15 |
| Others (4) | 33 | 0.89 | 25 | 0.62 |
| | **3,691** | **100.00** | **4,011** | **100.00** |

Notes:

* Negligible.

(1) Includes salaries, bonuses, incentives, employees' provident fund contributions, allowances, incentives, levy and work permit as well as other staff-related expenses.

(2) Rental expenses are rental for our office in Puchong, a warehouse in Ipoh, a factory in Banting (in FYE 2017 and FYE 2018), Thailand office (FYE 2019) and accommodations for our foreign workers.

(3) Including fees paid to company secretaries, auditors, lawyers, tax agent and other professional consultants.

(4) Including advertising, filing and attestation fees, licence fees, subscription fees and other miscellaneous expenses.

**Comparison between FYE 2017 and FYE 2018**

During FYE 2018, administrative expenses increased by RM1.59 million or 50.99% as compared to the preceding financial year. The increase was mainly due to the following:

(a) Staff cost increased by RM1.36 million mainly due to the following reasons:

   (i) Increase in bonus paid by RM0.10 million;

   (ii) Expense of RM0.63 million resulting from the application of MFRS 2 – Share Based Payment as our Promoters had sold existing Flexidynamic Engineering Shares to employees at a discounted price. Kindly refer to Section 6.2.1(a) for details; and

   (iii) Increase in salary by RM0.32 million as we hired 1 additional employee for our administration department and 1 additional employee for our operations as well as an annual increment for the existing employees;

(b) Directors' remuneration increased by RM0.10 million.

**Comparison between FYE 2018 and FYE 2019**

During FYE 2019, administrative expenses increased by RM0.25 million or 5.31% as compared to the preceding financial year, which was attributable to the following:

(a) Increase in Directors' remuneration by RM0.50 million due to appointment of 2 new Directors in FYE 2019 and annual increment for the existing Directors;

(b) Increase in marketing cost by RM0.10 million due to expenses spent on the opening ceremony of our new Banting Factory;

(c) Increase in insurance cost by RM0.06 million due to insurance for the Banting Factory;

(d) Increase in R&D expenses by RM0.11 million due to purchase of tools and equipment for R&D use; and

(e) Increase in professional fees by RM0.17 million due to the additional fees paid to our auditors in preparation for the Listing.

The increase in the administrative expenses was offset by the following:

(a) Decrease in staff cost by RM0.44 million due to the following:

(i) Lower incentives paid in FYE 2019 by RM0.10 million as compared to FYE 2018; and

(ii) We did not record any MFRS 2 – Share Based Payment expense as compared to the preceding year (FYE 2018: RM0.63 million),

The decrease was partially offset by annual increment for staff and additional staff hired during the FYE 2019 of approximately RM0.32 million.

(b) Decrease in rental expenses by RM0.28 million in FYE 2019 as we ceased the rental of our old factory and 4 staff hostels.

**Comparison between FPE 2019 and FPE 2020**

During FPE 2020, administrative expenses increased by RM0.32 million or 8.67% as compared to the preceding financial period, which was attributable to the following:

(a) Increase in Directors' remuneration by RM0.15 million due to annual increment for the existing Directors; and

(b) Increase in staff cost by RM0.23 million as we hired 11 additional employees for operations, 1 additional employee for engineering department and 2 sales engineers as well as an annual increment for the existing employees.

The increase in the administrative expenses was offset by the decrease in R&D expenses by RM0.09 million as we had completed our R&D projects and did not undertake any new R&D projects.

### 11.2.7 Other expenses

| | **Audited** | | | | | |
|---|---|---|---|---|---|---|
| | **FYE 2017** | | **FYE 2018** | | **FYE 2019** | |
| | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| **Other operating expenses** | | | | | | |
| Depreciation | 467 | 72.63 | 543 | 43.48 | 581 | 27.89 |
| Donation and scholarship | 1 | 0.15 | 35 | 2.80 | 5 | 0.24 |
| Realised loss on foreign exchange | 148 | 23.02 | 223 | 17.86 | 298 | 14.31 |
| Unrealised loss on foreign exchange | 9 | 1.40 | - | - | - | - |
| Property, plant and equipment written-off | * | * | 380 | 30.42 | 1 | 0.05 |
| Greetings, gift and condolences | 11 | 1.71 | 37 | 2.96 | 7 | 0.34 |
| Loss on disposal of investment in equity instruments | - | - | 15 | 1.20 | - | - |
| Government charges | * | * | 12 | 0.96 | 56 | 2.69 |
| Quit rent and assessment fee | 7 | 1.09 | 4 | 0.32 | 13 | 0.62 |
| Withholding tax expense | - | - | - | - | 28 | 1.34 |
| | 643 | 100.00 | 1,249 | 100.00 | 989 | 47.48 |
| **Allowance for expected credit loss** | - | - | - | - | 559 | 26.84 |

| | Audited | | | | | |
|---|---|---|---|---|---|---|
| | **FYE 2017** | | **FYE 2018** | | **FYE 2019** | |
| | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| **Other operating expenses** | | | | | | |
| **Fair value loss from equity investments** | - | - | - | - | 535 | 25.68 |
| | **643** | **100.00** | **1,249** | **100.00** | **2,083** | **100.00** |

| | **Unaudited** | | **Audited** | |
|---|---|---|---|---|
| | **FPE 2019** | | **FPE 2020** | |
| | **RM'000** | **%** | **RM'000** | **%** |
| **Other operating expenses** | | | | |
| Depreciation | 430 | 40.68 | 490 | 77.90 |
| Donation and scholarship | 5 | 0.47 | 5 | 0.79 |
| Realised loss on foreign exchange | 227 | 21.48 | 106 | 16.85 |
| Unrealised loss on foreign exchange | - | - | - | - |
| Property, plant and equipment written-off | 1 | 0.10 | * | * |
| Greetings, gift and condolences | 5 | 0.47 | 3 | 0.49 |
| Loss on disposal of investment in equity instruments | - | - | 20 | 3.18 |
| Government charges | 7 | 0.66 | - | - |
| Quit rent and assessment fee | 7 | 0.66 | 5 | 0.79 |
| Withholding tax expense | 56 | 5.30 | - | - |
| | 738 | 69.82 | 629 | 100.00 |
| **Allowance for expected credit loss** | - | - | - | - |
| **Fair value loss from equity investments** | 319 | 30.18 | - | - |
| | **1,057** | **100.00** | **629** | **100.00** |

Note:

* Negligible.

**(a) Other operating expenses**

**Comparison between FYE 2017 and FYE 2018**

During FYE 2018, other operating expenses increased by RM0.61 million or 94.87% as compared to the preceding financial year, which was due to the following:

(i) We recorded property, plant and equipment written off of RM0.38 million comprising mainly renovation cost for our old factory. During FYE 2018, we relocated to our Banting Factory;

(ii) Increase in depreciation expenses for our property, plant and equipment of RM0.08 million due to the purchase of new equipment and renovation of our Banting Factory;

(iii) Increase in realised loss on foreign exchange of RM0.08 million;

(iv) A scholarship of RM0.03 million was given to an intern to further studies in the field of engineering;

(v) We recorded loss on disposal of investment in equity instruments of RM0.02 million; and

(vi) A penalty imposed by Inland Revenue Board of Malaysia ("IRB")* of RM0.01 million as our tax payable was higher than the tax estimated provided to the IRB.

**Comparison between FYE 2018 and FYE 2019**

During FYE 2019, other operating expenses decreased by RM0.26 million or 20.82% as compared to the preceding financial year. The decrease in other operating expenses was due to the absence of property, plant and equipment written off recorded in FYE 2018 of RM0.38 million.

Notwithstanding the above, the decrease in other operating expenses was partially offset by the following:

(i) The increase in realised loss on foreign exchange of RM0.08 million;

(ii) Increase in depreciation expenses for our property, plant and equipment by RM0.04 million due to the addition of motor vehicles in FYE 2019;

(iii) A penalty imposed by IRB* for underestimating tax of RM0.03 million as our tax payable was higher than the tax estimated provided to the IRB.

We received a compound from the CIDB of RM0.03 million. The groundwork for the installation of our glove chlorination systems often begins during the construction of our customer's glove manufacturing factory. As such, we will begin the installation of glove chlorination systems while our customers' factory building is being constructed.

On 24 April 2019, a routine inspection was carried out by officers from the CIDB on one of our customer's factory which was being built. At that point in time, our employees were in the midst of installing the glove chlorination systems. However, CIDB was of the view that as we were working within a construction site, we require a CIDB license. This is notwithstanding the fact that we are installing the glove chlorination systems and were not involved in the construction of the factory.

We were then issued a compound for RM0.03 million, which we paid. We then applied and obtained a license from CIDB on 18 November 2019 in order to avoid the occurrence of such incident for future projects.

Note:

* The procedures in place to mitigate the recurrence of tax penalties are as follows:

(a) Our management will prepare monthly tax estimates and file the necessary tax estimate adjustments to the IRB;

(b) Our tax estimates adjustments to be submitted to the IRB shall be reviewed by our external tax agent; and

(c) Our tax estimates shall be tabled to our Audit and Risk Management Committee every quarter.

**Comparison between FPE 2019 and FPE 2020**

For FPE 2020, other operating expenses decreased by RM0.11 million or 14.91% which was mainly due to the decrease in realised loss on foreign exchange of RM0.12 million. The decrease was offset by the increase in depreciation by RM0.06 million which was attributable to the addition of motor vehicles in FPE 2020.

**(b) Allowance for expected credit loss**

During FYE 2019, we recorded an allowance for expected credit loss of RM0.56 million. The expected credit loss was provided under MFRS 9 - Financial Instruments. This was due to the delay in payment from 3 customers, namely Smart Glove Corporation Sdn Bhd (RM1.33 million), Sigma Glove Industries Sdn Bhd (RM0.01 million) and GX Corporation Sdn Bhd (RM0.01 million). The total amount owing by these customers is RM1.35 million as at FYE 2019.

A total of RM1.33 million was collected from Smart Glove Corporation Sdn Bhd during FPE 2020. Amount due from Sigma Glove Industries Sdn Bhd and GX Corporation Sdn Bhd of RM0.02 million was collected subsequent to FPE 2020.

**(c) Fair value loss from equity investments**

In FYE 2019, we recorded a loss from value of equity investments of RM0.54 million due to the lower fair value of investment in equity investments.

Subsequent to FYE 2019, we had disposed the abovementioned equity investments and recorded a gain on disposal of RM0.30 million.

### 11.2.8 Finance costs

The breakdown of our finance costs is as follows:

| | Audited | | | | | |
|---|---|---|---|---|---|---|
| | **FYE 2017** | | **FYE 2018** | | **FYE 2019** | |
| | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| Term loan interest | 64 | 71.11 | 75 | 47.77 | 63 | 49.61 |
| Bankers' acceptance interest | 4 | 4.44 | 17 | 10.83 | 35 | 27.56 |
| Lease liabilities | 22 | 24.45 | 23 | 14.65 | 29 | 22.83 |
| Other interest cost | - | - | 42 | 26.75 | - | - |
| | **90** | **100.00** | **157** | **100.00** | **127** | **100.00** |

| | **Unaudited** | | **Audited** | |
|---|---|---|---|---|
| | **FPE 2019** | | **FPE 2020** | |
| | **RM'000** | **%** | **RM'000** | **%** |
| Term loan interest | 41 | 44.57 | 28 | 45.90 |
| Bankers' acceptance interest | 32 | 34.78 | 16 | 26.23 |
| Lease liabilities | 19 | 20.65 | 17 | 27.87 |
| Other interest cost | - | - | * | * |
| | **92** | **100.00** | **61** | **100.00** |

Note:

* Negligible.

We utilised bankers' acceptance to finance our working capital which includes purchase of supplies, term loan to finance the acquisition of our factories and lease liabilities for the purchase of motor vehicles.

**Comparison between FYE 2017 and FYE 2018**

For FYE 2018, finance costs increased by RM0.07 million as compared to the preceding financial year. The increase was mainly due to interest cost of RM0.042 million for interest-free loans given to our employees for the purpose of acquiring shares in Flexidynamic Engineering. Kindly refer to Section 6.2.1(a) for more details.

**Comparison between FYE 2018 and FYE 2019**

For FYE 2019, finance costs decreased by RM0.03 million as compared to the preceding financial year. The decrease was mainly due to the absence of other interest cost. However, we recorded an increase in bankers' acceptance interest from RM0.017 million in FYE 2018 to RM0.035 million in FYE 2019 due to increase in bankers' acceptance drawn for working capital purposes.

**Comparison between FPE 2019 and FPE 2020**

For FPE 2020, finance costs decreased by RM0.03 million as compared to the preceding financial period. The decrease was mainly due to the following:

(a) Decrease in term loan interest resulting from the lower effective interest rate of 3.27% (FPE 2019: 4.52%); and

(b) Decrease in bankers' acceptance interest as we reduced the usage of bankers' acceptance during the FPE 2020 mainly due to increase our purchase of supplies on credit terms instead of cash terms.

### 11.2.9 Tax expense, PBT and PAT

The following tables sets out the comparison between the statutory tax rates and our effective tax rates for the financial years/period under review:

| | Audited | | |
|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** |
| | **%** | **%** | **%** |
| Statutory tax rate: | | | |
| - on the first RM500,000 | 18 | 18 | 17 |
| - balance of chargeable income | 24 | 24 | 24 |
| Effective tax rate | 4.60 | 17.88 | 27.14 |

| | Unaudited FPE 2019 | Audited FPE 2020 |
|---|---|---|
| | % | % |
| Statutory tax rate: | | |
| - on the first RM500,000 (FPE 2020: RM600,000) | 17 | 17 |
| - balance of chargeable income | 24 | 24 |
| Effective tax rate | 27.46 | 29.93 |

The following tables sets out the PBT, PBT margin, PAT and PAT margin for the financial years/period under review:

| | Audited | | |
|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** |
| PBT (RM'000) | 4,636 | 5,379 | 6,307 |
| PBT margin (%) | 15.50 | 11.13 | 12.65 |
| PAT (RM'000) | 4,423 | 4,417 | 4,595 |
| PAT margin (%) | 14.79 | 9.14 | 9.22 |

| | **Unaudited FPE 2019** | **Audited FPE 2020** |
|---|---|---|
| PBT (RM'000) | 2,819 | 3,805 |
| PBT margin (%) | 8.03 | 10.87 |
| PAT (RM'000) | 2,045 | 2,666 |
| PAT margin (%) | 5.83 | 7.62 |

**Comparison between FYE 2017 and FYE 2018**

For FYE 2018, as a result of increase in revenue and GP, our PBT improved from RM4.64 million for FYE 2017 to RM5.38 million for FYE 2018. However, resulting from the decrease in GP margin, our PBT margin had also decreased from 15.50% for FYE 2017 to approximately 11.13% for FYE 2018.

Our PAT remained consistent at RM4.42 million for FYE 2017 and FYE 2018. However, our PAT margin decreased from 14.79% to 9.14% in FYE 2018 due the increase of our effective tax rate from 4.60% to 17.88%. Flexidynamic Engineering was entitled to pioneer status incentives for small scale companies under the Promotion of Investments Act, 1986 (Amendment) to produce on-line chlorination system and the profit derived from these activities is 100% exempted from tax for a total relief period of 5 years from manufacturing date, i.e. from 10 May 2013 to 9 May 2018. Subsequent to 9 May 2018, we started paying tax for the profit generated from the provision of on-line chlorination system.

**Comparison between FYE 2018 and FYE 2019**

For FYE 2019, as a result of increase in revenue and GP, our PBT improved from RM5.38 million for FYE 2018 to RM6.31 million for FYE 2019. In line with the higher GP margin recorded in FYE 2019, our PBT margin improved from 11.13% for FYE 2018 to 12.65% for FYE 2019.

Our PAT increased by RM0.18 million to RM4.60 million in FYE 2019 and the PAT margin recorded is 9.22%. The effective tax rate increased to 27.14% as this is the first full financial year where we were not entitled to any tax exemptions. In addition, certain expenses recorded in FYE 2019 such as expected credit loss and depreciation of certain assets are not entitled to tax deductions.

**Comparison between FPE 2019 and FPE 2020**

For FPE 2020, our PBT improved from RM2.82 million in FPE 2019 to RM3.81 million in FPE 2020 and our PBT margin improved from 8.03% in FPE 2019 to 10.87% in FPE 2020. This was due to the following:

(i) Reversal on impairment loss of financial asset amounting to RM0.56 million;

(ii) Net gain of RM0.30 million from the disposal of investment in equity instruments;

(iii) The absence of fair value loss from equity investments of RM0.32 million recorded in FPE 2019; and

(iv) Decrease in selling and distribution expenses by RM0.26 million.

Corresponding to the increase in PBT and PBT margin, our PAT and PAT margin improved to RM2.67 million (FPE 2019: RM2.05 million) and 7.62% (FPE 2019: 5.83%) respectively. In FPE 2020, the effective tax rate increased to 29.93% from 27.46% due to the increase in expenses that are non-tax deductible such as depreciation of certain assets and marketing cost.

Our PBT margin and PAT margin for FPE 2020 of 10.87% (FYE 2019: 12.65%) and 7.62% (FYE 2019: 9.22%) respectively is lower than PBT margin and PAT margin for FYE 2019. This was due to the lower GP margin recorded for FPE 2020 of 22.00% (FYE 2019: 28.00%). In order to meet the delivery timeline and complete the projects by the fourth quarter of 2020, we incurred higher subcontractor cost at RM8.22 million or 30.11% of total cost of sales (FPE 2019: RM7.54 million or 27.84% of total cost of sales) due to an increase in overtime charges charged by the subcontractors which led to a lower GP margin.

### 11.2.10 Review of financial position

#### (a) Assets

Our assets for the financial years/period under review comprise the following:

| | Audited | | |
|---|---|---|---|
| | 31 December | | |
| | **2017** | **2018** | **2019** |
| | **RM'000** | **RM'000** | **RM'000** |
| **Non-current assets** | | | |
| Property, plant and equipment | 7,663 | 8,728 | 12,402 |
| Investment in equity instruments | 2,292 | 2,660 | 2,823 |
| Deferred tax asset | - | 700 | 122 |
| Other receivables | - | 402 | 291 |
| **Total non-current assets** | **9,955** | **12,490** | **15,638** |
| **Current assets** | | | |
| Inventories | 1,662 | 2,818 | 4,195 |

| | Audited | | |
|---|---|---|---|
| | 31 December | | |
| | 2017 | 2018 | 2019 |
| | RM'000 | RM'000 | RM'000 |
| Trade receivables | 7,375 | 14,465 | 11,757 |
| Other receivables | 359 | 1,042 | 1,311 |
| Amount due from a Director | - | 180 | - |
| Amount due from a shareholder | - | 215 | - |
| Tax recoverable | 4 | - | 26 |
| Fixed deposits with a licensed financial institution | 1,124 | 1,160 | - |
| Cash and bank balances | 6,201 | 5,164 | 3,930 |
| **Total current assets** | **16,725** | **25,044** | **21,219** |
| **TOTAL ASSETS** | **26,680** | **37,534** | **36,857** |

| | Unaudited | Audited |
|---|---|---|
| | 30 September | |
| | 2019 | 2020 |
| | RM'000 | RM'000 |
| **Non-current assets** | | |
| Property, plant and equipment | 9,340 | 15,274 |
| Investment in equity instruments | 3,038 | - |
| Deferred tax asset | - | 2,888 |
| Other receivables | 339 | 190 |
| **Total non-current assets** | **12,717** | **18,352** |
| **Current assets** | | |
| Inventories | 3,451 | 4,807 |
| Trade receivables | 8,754 | 22,907 |
| Other receivables | 2,000 | 1,819 |
| Amount due from a Director | 274 | - |
| Amount due from a shareholder | - | - |
| Tax recoverable | 746 | - |
| Fixed deposits with a licensed financial institution | 1,187 | - |
| Cash and bank balances | 3,379 | 11,827 |
| **Total current assets** | **19,791** | **41,360** |
| **TOTAL ASSETS** | **32,508** | **59,712** |

**Comparison between as at 31 December 2017 and 31 December 2018**

**Non-current assets**

Our non-current assets increased by RM2.54 million or 25.51% mainly due to the following:

(i) Increase in property, plant and equipment of RM1.07 million resulting from:

(aa) Purchase of machinery which includes 2 units of cranes with 5-tonne capacity for our Banting Factory amounting to RM0.38 million and purchase of moulds amounting to RM0.06 million;

(bb) Renovation cost of RM0.64 million incurred for the renovation of our Banting Factory; and

(cc) Purchase of furniture, fittings and office equipment of RM0.58 million.

The increase was partially offset by the write-off in renovation cost for our previously rented factory amounting to RM0.57 million.

(ii) Purchase of RM0.45 million of investment in equity instruments, RM0.24 million of fair value gain recorded and disposal of investment in equity instruments of RM0.33 million;

(iii) Deferred tax asset of RM0.70 million arising from tax paid in advance for the project deposits received in FYE 2018. We received projects deposits from Hartalega NGC Sdn Bhd, Ideal Quality Sdn Bhd and Premier System Engineering Co Ltd for the projects secured but the project implementation only commenced during FYE 2019; and

(iv) RM0.40 million in interest-free loans given to our employees for the purpose of acquiring shares in Flexidynamic Engineering. Kindly refer to Section 6.2.1(a) for more details.

**Current assets**

Our current assets increased by RM8.32 million or 49.75% mainly due to:

(i) Increase in RM1.16 million in inventories (mainly raw materials) to cater for increasing orders;

(ii) Increase in RM7.09 million in trade receivables due to increase in revenue in FYE 2018 of RM18.42 million;

(iii) RM0.40 million arising due to advances by Flexidynamic Thailand to Tan Kong Leong and Phitchaya Arsangku. The amount was subsequently repaid during FYE 2019; and

(iv) Increase in RM0.68 million in other receivables mainly due to RM0.31 million deferred professional fees incurred for our Listing, Goods and Services Tax receivable of RM0.17 million and interest-free loans given to our employees for the purpose of acquiring shares in Flexidynamic Engineering of RM0.14 million.

The increase in current assets was partially offset by the decrease in cash and bank balances of RM1.04 million.

**Comparison between 31 December 2018 and 31 December 2019**

**Non-current assets**

Our non-current assets increased by RM3.15 million or 25.22% mainly due to:

(i) The increase in building in progress of RM3.44 million for the purchase of 2 adjoining semi-detached factory units in Banting during FYE 2019; and

(ii) Increase in investment in equity instrument of RM0.16 million arising from the purchase of RM1.61 million of investment in equity instruments but was off-set with RM0.92 million from disposals of investment in equity instruments and RM0.53 million in fair value loss on equity instruments.

The increase in non-current assets was partially offset by:

(i) Decrease in deferred tax assets due to lower deferred income recorded of RM0.17 million in FYE 2019 as compared to RM0.82 million in the preceding year as result of lower project deposits from clients as at 31 December 2019 as project implementation of majority of the project secured as at 31 December 2019 has commenced. Once a project commences, the project deposit is recognised as revenue; and

(ii) Reclassification of RM0.11 million in amount owed by employees for interest-free loans to current assets.

**Current assets**

Our current assets decreased by RM3.83 million or 15.29% mainly due to:

(i) Decrease of RM2.71 million in trade receivables mainly due to:

  (aa) RM0.56 million of allowance of expected credit losses recorded due to the delay in payment from 3 customers, namely Smart Glove Corporation Sdn Bhd, Sigma Glove Industries Sdn Bhd and GX Corporation Sdn Bhd; and

  (bb) Improved collection during last quarter of FYE 2019 mainly due to collection from our major customers, namely the Hartalega Group amounting to RM5.96 million and Ever Global (Vietnam) Enterprise Corporation amounting to RM3.44 million.

(ii) Decrease of RM1.16 million in fixed deposits with a licenced financial institution and decrease of RM1.23 million in cash and bank balances mainly due to purchase of 2 adjoining semi-detached factory units in Banting during FYE 2019 of which we paid a cash deposit of RM1.16 million and purchase of equity investments of RM1.61 million.

The decrease in current assets was partially offset by:

(i) Increase in inventories by RM1.38 million due to a higher amount of finished goods pending delivery as at 31 December 2019; and

(ii) Increase in other receivables by RM0.27 million. We recorded an increase in deferred professional fees of RM0.55 million, decrease in Goods and Services Tax receivable by RM0.10 million and decrease in prepayments (work permits for foreign workers) of RM0.19 million.

**Comparison between 30 September 2019 and 30 September 2020**

**Non-current assets**

Our non-current assets increased by RM5.64 million or 44.35% mainly due to the following:

(i) Increase in property, plant and equipment by RM5.93 million mainly due to the work-in-progress recorded for the purchase of 2 adjoining new semi-detached factory units in Banting amounting to RM5.80 million; and

(ii) Increase in deferred tax asset by RM2.89 million arising from tax paid in advance for the project deposits received in FPE 2020. We received projects deposits from Ever Growth (Vietnam) Co Ltd, Onetexx Sdn Bhd and Sri Trang Group for the projects secured but the project implementation only commenced after FPE 2020.

The increase in non-current assets was partially offset by the decrease in investment in equity instruments of RM3.04 million from the disposal of quoted shares during FPE 2020.

**Current assets**

Our current assets increased by RM21.57 million or 108.99% mainly due to the following:

(i) Increase in inventories by RM1.36 million as at 30 September 2020 as we had increased our stocking of raw materials to cater for new projects secured during FPE 2020;

(ii) Increase in trade receivables of RM14.15 million mainly due to invoices issued to Ever Growth (Vietnam) Co Ltd, Hartalega Group, YTY Group, Central Medicare Sdn Bhd and Onetexx Sdn Bhd totalling RM19.46 million from July to September 2020 but the payment has yet to be collected as at 30 September 2020; and

(iii) Increase in cash and bank balances of RM8.45 million mainly due to project deposits received from Ever Growth (Vietnam) Co Ltd, Onetexx Sdn Bhd and Sri Trang Group amounting to RM12.50 million.

The increase in current assets was partially offset by the uplift of fixed deposits pledged with a licensed financial institution of RM1.19 million.

**(b) Liabilities**

Our liabilities for the financial years/period under review comprise the following:

| | Audited | | |
|---|---|---|---|
| | 31 December | | |
| | 2017 | 2018 | 2019 |
| | RM'000 | RM'000 | RM'000 |
| **Non-current liabilities** | | | |
| Bank borrowings | 4,537 | 4,224 | 6,177 |
| Lease liabilities | 295 | 313 | 494 |
| Deferred tax liabilities | 10 | - | - |
| **Total non-current liabilities** | **4,842** | **4,537** | **6,671** |
| **Current liabilities** | | | |
| Trade payables | 5,919 | 8,954 | 6,515 |
| Other payables and accruals | 1,301 | 1,175 | 386 |
| Contract liabilities | 762 | 3,401 | 692 |
| Bank borrowings | 174 | 730 | 893 |
| Lease liabilities | 168 | 144 | 219 |
| Tax payable | 135 | 834 | - |
| **Total current liabilities** | **8,459** | **15,238** | **8,705** |
| **TOTAL LIABILITIES** | **13,301** | **19,775** | **15,376** |

| | Unaudited | Audited |
|---|---|---|
| | 30 September | |
| | 2019 | 2020 |
| | RM'000 | RM'000 |
| **Non-current liabilities** | | |
| Bank borrowings | 3,944 | 8,623 |
| Lease liabilities | 559 | 751 |
| Deferred tax liabilities | 142 | - |
| **Total non-current liabilities** | **4,645** | **9,374** |
| **Current liabilities** | | |
| Trade payables | 7,019 | 8,916 |
| Other payables and accruals | 418 | 286 |
| Contract liabilities | 24 | 13,002 |
| Bank borrowings | 940 | 1,131 |
| Lease liabilities | 230 | 287 |
| Tax payable | - | 3,290 |
| **Total current liabilities** | **8,631** | **26,912** |
| **TOTAL LIABILITIES** | **13,276** | **36,286** |

**Comparison between 31 December 2017 and 31 December 2018**

**Non-current liabilities**

Our non-current liabilities decreased by RM0.31 million or 6.40% mainly due to repayment of bank borrowings of RM0.30 million.

**Current liabilities**

Our current liabilities increased by RM6.78 million or 80.15% mainly due to:

(i) Increase in trade payables of RM3.04 million mainly due to increase in purchase of supplies to support our increase in sales;

(ii) Increase in contract liabilities by RM2.64 million was mainly due to project deposits received from Hartalega NGC Sdn Bhd, Ideal Quality Sdn Bhd and Premier System Engineering Co Ltd. The project deposits were received as at 31 December 2018 but the project implementation only commenced during 2019;

(iii) Increase in bank borrowings of RM0.56 million mainly due to drawdown of bankers' acceptance for the purchase of supplies to support our increase in sales and reclassification of borrowings with a maturity of less than 1 year to current liabilities; and

(iv) Increase in tax payable of RM0.70 million as a result of the expiration of the tax exemption for provision of on-line chlorination system on 9 May 2018. Subsequent to 9 May 2018, we started paying tax for the profit generated from the provision of on-line chlorination system.

**Comparison between 31 December 2018 and 31 December 2019**

**Non-current liabilities**

Our non-current liabilities increased by RM2.13 million or 46.95% mainly due to drawdown of term loan (RM2.28 million) for the purchase of the 2 adjoining new semi-detached factory and additional lease liabilities for motor vehicles of RM0.18 million.

**Current liabilities**

Our current liabilities decreased by RM6.53 million or 42.85% mainly due to the following:

(i) Decrease in contract liabilities by RM2.71 million due to lower project deposits received as at 31 December 2019 of RM0.69 million as compared to RM3.40 million as at 31 December 2018 as project implementation of majority of the project secured as at 31 December 2019 has commenced. Once a project implementation commences, the project billings will be issued which will offset the project deposits received, hence result in a decrease in contract liabilities; and

(ii) Decrease in trade payables by RM2.44 million mainly due to the decrease in purchases of plastic resins as well as PVC pipes and fittings. During the FYE 2019, we had sold a higher volume of FRP-lined mild steel storage tanks as compared to the storage tanks made from FRP materials of which resins is the main component.

**Comparison between 30 September 2019 and 30 September 2020**

**Non-current liabilities**

Our non-current liabilities increased by RM4.73 million or 101.83% mainly due to drawdown of bank borrowings of RM4.78 million for the purchase of the 2 adjoining new semi-detached factory units in Banting and increase in lease liabilities due to the addition of motor vehicles in FPE 2020.

**Current liabilities**

Our current liabilities increased by RM18.28 million or 211.79% mainly due to the following:

(i) Increase in trade payables by RM1.90 million mainly due to increase in subcontractor cost arising from an increase in overtime charges by the subcontractors in order to meet the delivery timeline and complete projects by the fourth quarter of 2020;

(ii) Increase in contract liabilities by RM12.98 million was mainly due to project deposits received amounting to RM12.50 million for the 4 contracts secured from Ever Growth (Vietnam) Co Ltd, Onetexx Sdn Bhd and Sri Trang Group during FPE 2020. The project deposits were received during the third quarter of 2020 but the project implementation of 2 contracts commenced during the fourth quarter of 2020 and remaining 2 contracts shall commence in 2021; and

(iii) Tax payable of RM3.29 million attributable to higher tax provision made during FPE 2020 arising from high project deposits received during FPE 2020.

### 11.2.11 Recent developments

There were no significant events subsequent to our Group's audited financial statements for FPE 2020.

## 11.3 LIQUIDITY AND CAPITAL RESOURCES

### 11.3.1 Working capital

We have been financing our operations through existing cash and bank balances, cash generated from our operations and external sources of funds. Our external sources of funds mainly comprise term loans and trade facilities such as bankers' acceptance as well as hire purchase financing.

As at 30 September 2020, we have:

(a) Cash and bank balances of approximately RM11.83 million; and

(b) Banking facilities (excluding lease liabilities) up to a limit of RM13.63 million, of which RM9.75 million has been utilised.

The interest rate of our borrowings is based on prevailing market rates. Currently, the principal use of our borrowings is for our Group's business growth and operations, for the acquisition of property, plant and equipment as well as for working capital purposes.

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

Based on the pro forma consolidated statements of financial position of our Group as at 30 September 2020 (after the Acquisition of Flexidynamic Engineering but before the Public Issue), our NA position stood at RM23.17 million and our gearing level is 0.47 times. Our NA position and gearing level after the Acquisition of Flexidynamic Engineering and Public Issue (and utilisation of proceeds) are RM35.22 million and 0.17 times respectively.

As at the LPD, we have cash and bank balances of RM10.21 million and unutilised credit facilities of RM2.25 million. Our Board is confident that, after taking into account our gearing and cash flow position as well as the banking facilities currently available to our Group and that our operations were not materially affected throughout the period of MCO, conditional MCO and recovery MCO, our working capital will be sufficient for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus. Kindly refer to Section 6.7.4 for more details.

At this juncture, we do not foresee any circumstances which may materially affect our liquidity. Our Group has not encountered any major disputes with our debtors. Our finance personnel work together closely with our sales and marketing staff for the collection of these outstanding balances on a monthly basis. This measure has proven to be effective while maintaining a cordial relationship with our customers.

### 11.3.2 Review of cash flows

#### (a) Cash flow summary

The table below sets out the summary of our Group's historical audited combined statements of cash flows for FYEs 2017 to 2019 and FPE 2020.

| | **Audited** | | |
|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** |
| | **RM'000** | **RM'000** | **RM'000** |
| Net cash from operating activities | 6,248 | 2,237 | 438 |
| Net cash used in investing activities | (119) | (1,617) | (1,809) |
| Net cash used in financing activities | (1,318) | (1,814) | (121) |
| **Net increase/(decrease) in cash and cash equivalents** | **4,811** | **(1,194)** | **(1,492)** |

| | **Unaudited** | **Audited** |
|---|---|---|
| | **FPE 2019** | **FPE 2020** |
| | **RM'000** | **RM'000** |
| Net cash (used in)/from operating activities | (20) | 5,837 |
| Net cash (used in)/from investing activities | (882) | 2,643 |
| Net cash used in financing activities | (1,069) | (687) |
| **Net (decrease)/increase in cash and cash equivalents** | **(1,971)** | **7,793** |

**Commentary of cash flows**

**FYE 2017**

**Net cash from operating activities**

In FYE 2017, we recorded net operating cash of RM6.25 million. We collected approximately RM34.18 million from our customers which was offset by cash payments of RM28.11 million. Such cash payments were mainly due to:

(i) Approximately RM21.67 million paid to suppliers for purchase of supplies; and

(ii) Approximately RM5.03 million paid for employees' benefit including salary.

**Net cash used in investing activities**

We recorded a net cash outflow of RM0.12 million in our investing activities in FYE 2017, mainly due to:

(i) Payment of renovation for our Banting Factory of RM0.04 million;

(ii) Purchase of office equipment of RM0.03 million;

(iii) Purchase of moulds of RM0.01 million; and

(iv) Investment in equity instruments of RM0.06 million.

**Net cash used in financing activities**

In FYE 2017, the cash used in financing activities of RM1.32 million was mainly due to:

(i) Repayment of term loans of RM0.32 million and bankers' acceptance of RM0.10 million;

(ii) Repayment of lease liabilities of RM0.17 million; and

(iii) Dividend payment of RM0.60 million.

**FYE 2018**

**Net cash from operating activities**

In FYE 2018, we recorded net operating cash of RM2.24 million. We collected approximately RM44.43 million from our customers which was offset by cash payments of RM42.40 million. Such cash payments were mainly due to:

(i) Approximately RM32.40 million paid to suppliers for purchase of supplies;

(ii) Approximately RM6.14 million paid for employees' benefit including salary; and

(iii) Income tax paid of RM0.97 million.

**Net cash used in investing activities**

We recorded a net cash outflow of RM1.62 million in our investing activities in FYE 2018, mainly due to:

(i) Purchase of new machines and equipment for the Banting Factory such as air compressor, dust collector and overhead crane machinery of RM0.51 million;

(ii) Payment of renovation for our Banting Factory of RM0.64 million;

(iii) Purchase of office equipment of RM0.27 million; and

(iv) Investment in equity instruments of RM0.45 million.

The net cash outflow was offset by a cash proceed from disposal of equity investments of RM0.31 million and proceeds received for the issuance of new Flexidynamic Thailand shares for RM0.21 million.

**Net cash used in financing activities**

In FYE 2018, the cash used in financing activities of RM1.81 million was mainly due to:

(i) Repayment of borrowings of RM0.31 million;

(ii) Repayment of lease liabilities of RM0.21 million;

(iii) Advance to a shareholder of Flexidynamic Thailand, Phitchaya Arsangku, the wife of Tan Kong Leong of RM0.22 million. The amount has been repaid in FYE 2019;

(iv) Advance to a shareholder/Director of Flexidynamic Thailand, Tan Kong Leong of RM0.18 million. The amount has been repaid in FYE 2019; and

(v) Dividend payment of RM1.30 million.

The outflow was offset by a drawdown of bank borrowings of RM0.55 million in bankers' acceptance for working capital purposes.

**FYE 2019**

**Net cash from operating activities**

In FYE 2019, we recorded net operating cash of RM0.44 million. We collected approximately RM48.33 million from our customers which was offset by cash payments of RM47.62 million. Such cash payments were mainly due to:

(i) Approximately RM39.10 million paid to suppliers for purchase of supplies;

(ii) Approximately RM6.10 million paid for employees' benefit including salary; and

(iii) Income tax paid of RM2.02 million.

In order to support our increase in sales, we increased the purchase of raw materials such as plastic resins, FRP materials and FRP grating, a substantial sum which was made during end of FYE 2018. As such in FYE 2019, we increase the payment for purchase of supplies which partly contributed to lower cash generated from operating activities.

**Net cash used in investing activities**

In FYE 2019, net cash used in investing activities of RM1.81 million was mainly due to:

(i) Purchase of new motor vehicles of RM0.03 million and building in progress of RM1.16 million;

(ii) Payment of renovation for the office building in Thailand of RM0.01 million; and

(iii) Investment in equity instruments of RM1.61 million.

However, we received cash proceeds from disposal of equity investments and disposal of property, plant and equipment of RM0.95 million and RM0.11 million respectively and for the issuance of new Flexidynamic Thailand Shares of RM0.24 million.

**Net cash used in financing activities**

In FYE 2019, the cash used in financing activities of RM0.12 million was mainly from:

(i) Repayment of bank borrowings and lease liabilities of RM2.48 million and RM0.19 million respectively;

(ii) Dividend payment to the shareholders of Flexidynamic of RM0.96 million; and

(iii) Dividend paid to the non-controlling shareholders of Flexidynamic Thailand RM0.23 million.

The net cash outflow was offset by the following:

(i) Drawdown of bank borrowings of RM2.31 million for the purchase of the 2 adjoining new semi-detached factories for the purchase of our motor vehicles and for our working capital;

(ii) Uplift of fixed deposits pledged with a licensed financial institution of RM1.16 million; and

(iii) Repayment from advances to shareholders/Director of Flexidynamic Thailand of RM0.40 million.

**FPE 2020**

**Net cash from operating activities**

In FPE 2020, we recorded net operating cash of RM5.84 million. The Group collected approximately RM36.53 million from the customers which was offset by cash payments of RM30.69 million. Such cash payments were mainly due to:

(i) Approximately RM24.72 million paid to suppliers for purchase of supplies;

(ii) Approximately RM4.17 million paid for employees' benefit including salary; and

(iii) Income tax paid of RM0.59 million.

**Net cash from investing activities**

In FPE 2020, the net cash from investing activities of RM2.64 million was mainly due to the cash proceeds from disposal of investment in equity instruments of RM3.13 million.

The net cash inflow was offset by the purchase of property, plant and equipment of RM0.50 million.

**Net cash used in financing activities**

In FPE 2020, the net cash used in financing activities of RM0.69 million was mainly due to:

(i) Repayment of bank borrowings and lease liabilities of RM1.07 million and RM0.10 million respectively; and

(ii) Dividend payment to the shareholders of Flexidynamic of RM0.70 million.

The net cash outflow was offset by the drawdown of bankers' acceptance of RM1.25 million for purchase of supplies.

## 11.4 BORROWINGS

We utilise credit facilities such as bankers' acceptances to finance our working capital and term loans to finance the acquisition of factories. In addition, we also utilise leases liabilities for the purchase of motor vehicles.

Our total outstanding bank borrowings (including lease liabilities) as at 30 September 2020 stood at RM10.79 million, details of which are set out below. All our bank borrowings are interest-bearing and denominated in RM.

| | Purpose | Tenure | Interest rate | As at 30 September 2020 |
|---|---|---|---|---|
| | | | % per annum | RM'000 |
| **Interest bearing short-term borrowings, payable within 1 year:** | | | | |
| Bankers' acceptance | Financing purchase of goods | 4 months | 2.59% - 3.63% | 874 |
| Term loan | Financing the purchase of factories | 20 years | 3.27% | 257 |
| Lease liabilities | Financing for the purchase of motor vehicles | 5 years | 2.87% - 6.38% | 287 |
| | | | **Sub-total** | **1,418** |
| **Interest bearing long-term borrowings, payable after 1 year:** | | | | |
| Term loan | Financing the purchase of factories | 20 years | 3.27% | 8,623 |
| Lease liabilities | Financing for the purchase of motor vehicles | 5 years | 2.87% - 6.38% | 751 |
| | | | **Sub-total** | **9,374** |
| | | | **Total borrowings** | **10,792** |

**Pro forma gearing (times)**

| | |
|---|---|
| After Acquisition of Flexidynamic Engineering before the Public Issue[(1)] | 0.47 |
| After the Public Issue[(2)] | 0.17 |

Notes:

(1) Computed based on the pro forma consolidated statements of financial position after the Acquisition of Flexidynamic Engineering before the Public Issue.

(2) Computed based on the pro forma consolidated statements of financial position after the Acquisition of Flexidynamic Engineering and Public Issue (and utilisation of proceeds).

Our pro forma gearing ratio is expected to decrease from 0.47 times (before the Public Issue) to 0.28 times (after the Public Issue) due to the increase in shareholders' funds arising from the issuance of new Shares pursuant to the Public Issue. Thereafter, the gearing ratio will decrease to 0.17 times (after utilisation of proceeds) as we intend to utilise RM6.38 million from our IPO proceeds to repay bank borrowings drawn/ to be drawn for the purchase of 2 adjoining semi-detached factory units in Banting.

Our bank borrowings carry the following effective interest rates for the FYEs 2017 to 2019 and FPE 2020:

| | FYE 2017 | FYE 2018 | FYE 2019 | FPE 2020 |
|---|---|---|---|---|
| | % per annum | | | |
| Bankers' acceptances | - | 4.06 – 4.09 | 3.84 – 4.09 | 2.59 – 3.63 |
| Term loans | 4.65 | 4.77 | 4.52 | 3.27 |
| Lease liabilities | 4.55 – 6.64 | 4.63 – 6.64 | 2.87 – 6.38 | 2.87 – 6.38 |

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

| | FYE 2017 | FYE 2018 | FYE 2019 | FPE 2020 |
|---|---|---|---|---|
| | RM'000 | | | |
| **Bank borrowings** | | | | |
| Within the next 12 months | 174 | 730 | 893 | 1,131 |
| After the next 12 months | 4,537 | 4,224 | 6,177 | 8,623 |
| **Lease liabilities** | | | | |
| Within the next 12 months | 168 | 144 | 219 | 287 |
| After the next 12 months | 295 | 313 | 494 | 751 |

As at the LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currencies. We have not defaulted on payments of principal sums and/or interests in respect of any borrowings throughout the FYEs 2017 to 2019 and FPE 2020 as well as the subsequent financial period up to LPD.

As at the LPD, neither our Group nor our subsidiary is in breach of any terms and conditions or covenants associated with the credit arrangement or bank loan which can materially affect our financial position and results or business operations or the investments by holders of our securities.

From FYEs 2017 to 2019 and FPE 2020, we have not experienced any claw back or reduction in the facilities limit granted to us by our lenders.

## 11.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

As at the LPD, save for our bank borrowings as disclosed in Section 11.4, we do not utilise any other financial instruments. We maintain foreign currency accounts to receive proceeds of our sales in USD.

We finance our operations mainly through cash generated from our operations, as well as external sources of funds which mainly comprise bank borrowings. Our bank borrowings as at 30 September 2020 are based on the bank's cost of funds plus a rate which varies depending on the different types of bank facilities.

The principal usages of these banking facilities are for working capital, purchase of supplies and purchase of property, plant and equipment.

## 11.6 MATERIAL CAPITAL COMMITMENTS, MATERIAL LITIGATION AND CONTINGENT LIABILITY

### 11.6.1 Material capital commitments

As at the LPD, RM0.91 million was authorised and contracted for the purchase of 2 adjoining semi-detached factory units in Banting. The total cost of the 2 factory units is RM7.54 million (after including discount of RM1.57 million given by the developer) which was financed via internally generated funds of RM1.16 million and bank borrowings of RM6.38 million.

The factory units are under construction as at the LPD and we expect to take vacant possession for both factories in May 2021. Additional information on our new factories is set out in Section 6.19.1(a).

We do not have any other material capital commitments as at the LPD.

### 11.6.2 Material litigation and contingent liability

We are not engaged in any material litigation, claim or arbitration either as plaintiff or defendant and there are no proceeding pending or threatened or of any fact likely to give rise to any proceeding which might materially or adversely affect our position or business as at the LPD.

There are no contingent liabilities incurred by us or our subsidiary, which upon becoming enforceable, may have a material effect on our financial position or our subsidiary as at the LPD.

Nevertheless, we wish to highlight the following:

(a) On 1 June 2016, Flexidynamic Engineering purchased the Banting Factory which is located at Lot 226, Seksyen 2, Pekan Bukit Changgang, District of Kuala Langat, State of Selangor, measuring approximately 4,250 sqm held under Geran no. 124476 ("Lot 226") as a sub-sale unit from WWRC Malaysia Sdn Bhd ("WWRC") ("Lot 226 SPA").

The back perimeter of Lot 226 shares a boundary with a land known as Lot 2355, Mukim Tanjong Dua Belas, District of Kuala Langat, State of Selangor held under Geran no. 154007 ("Lot 2355") which is owned by Klangcapital Development Sdn Bhd. On 9 October 2019, Flexidynamic Engineering was served with a third party notice dated 8 October 2019 and writ of summons and statement of claim dated 7 August 2019 in relation to a litigation suit involving encroachment of Lot 2355. The suit alleges that the back perimeter wall of the Lot 226 had encroached 10.2 sqm of Lot 2355.

On 15 January 2021, Flexidynamic Engineering obtained a Fourth Party Notice against WWRC. The Fourth Party Notice enables Flexidynamic Engineering to claim for indemnity and contribution from WWRC pursuant to the Lot 226 SPA.

As at the LPD, the Shah Alam High Court had fixed another case management on 1 March 2021 for the entire matter.

The litigation lawyer appointed by Flexidynamic Engineering for the suit is of the view that this suit will not bear any material impact on our Group.

Our Board is of the view that Flexidynamic Engineering being named as Third Party in this legal suit has no impact or effect on the business and operations of Flexidynamic Engineering as the alleged area of encroachment is only 10.2 sqm at the back of the Banting Factory which is a vacant area. Moreover, Flexidynamic Engineering has agreed to remove (by demolishing and rebuilding a new boundary wall) after being requested to do so by the Klangcapital Development Sdn Bhd. The demolition and rebuilding work shall commence after a decision is made by Shah Alam High Court. The estimated financial impact to us is the cost for building the back perimeter wall which is approximately RM5,000 and will take approximately 1 week to be built.

In addition, on 30 August 2019, Flexidynamic Engineering entered into 2 separate sale and purchase agreement with Klangcapital Development Sdn Bhd to acquire 2 semi-detached factories comprising of 2-storey offices with a total factory built-up area of 14,659.60 sq ft each located at No. 12 and No. 12A, Jalan 1/3, Kawasan Perusahaan Olak Lempit, 42700 Banting, Selangor Darul Ehsan, respectively, which is located on Lot 2355 and is directly behind the Banting Factory ("New Lots"). The New Lots are under a light industrial development project comprising semi-detached factories known as "Excellent Technology Park IV". The land area of the New Lots purchased by Flexidynamic Engineering covers the alleged area of encroachment by Lot 226.

The land area of the New Lots purchased by Flexidynamic Engineering covers the alleged area of encroachment by Lot 226.

As such, the abovementioned litigation will not materially or adversely affect our financial position, profitability or business operations.

## 11. FINANCIAL INFORMATION *(Cont'd)*

### 11.7 KEY FINANCIAL RATIOS

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

| | Audited | | | |
|---|---|---|---|---|
| | FYE 2017 | FYE 2018 | FYE 2019 | FPE 2020 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Trade receivable turnover (days)[(1)] | 103 | 82 | 96 | 135 |
| Trade payable turnover (days)[(2)] | 99 | 74 | 78 | 77 |
| Inventory turnover (days) [(3)] | 19 | 22 | 35 | 45 |
| Current ratio (times)[(4)] | 1.98 | 1.64 | 2.44 | 1.54 |
| Gearing ratio (times)[(5)] | 0.39 | 0.30 | 0.36 | 0.46 |

Notes:

(1) Computed based on the average trade receivables multiplied by 365 days for FYEs and 274 days for FPE 2020:

| | Audited | | | |
|---|---|---|---|---|
| | FYE 2017 | FYE 2018 | FYE 2019 | FPE 2020 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Opening trade receivables | 9,519 | 7,375 | 14,465 | 11,757 |
| Closing trade receivables | 7,375 | 14,465 | 11,757 | 22,907 |
| Revenue | 29,902 | 48,322 | 49,839 | 35,007 |
| Average trade receivables turnover period (days) | 103 | 82 | 96 | 135 |

(2) Computed based on the average trade payables multiplied by 365 days for FYEs and 274 days for FPE 2020:

| | Audited | | | |
|---|---|---|---|---|
| | FYE 2017 | FYE 2018 | FYE 2019 | FPE 2020 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Opening trade payables | 5,832 | 5,919 | 8,954 | 6,515 |
| Closing trade payables | 5,919 | 8,954 | 6,515 | 8,916 |
| Cost of sales | 21,447 | 36,331 | 35,883 | 27,306 |
| Average trade payable turnover period (days) | 99 | 74 | 78 | 77 |

(3) Computed based on the average inventories multiplied by 365 days for FYEs and 274 days for FPE 2020:

| | Audited | | | |
|---|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** | **FPE 2020** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Opening inventories | 630 | 1,662 | 2,818 | 4,195 |
| Closing inventories | 1,662 | 2,818 | 4,195 | 4,807 |
| Cost of sales | 21,447 | 36,331 | 35,883 | 27,306 |
| Average inventories turnover period (days) | 19 | 22 | 35 | 45 |

(4) Computed based on current assets over current liabilities as at year end of the respective financial years/period.

(5) Computed based on the total interest bearing debt (including lease liabilities) over total equity as at year end of the respective financial years/period.

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### 11.7.1 Trade receivables turnover

The ageing analysis of our trade receivables as at 30 September 2020 is as follows:

| | Within credit period | Exceeding credit period | | | | |
|---|---|---|---|---|---|---|
| | **Neither past due nor impaired** | **1 to 30 days past due but not impaired** | **31 to 60 days past due but not impaired** | **61 - 90 days past due but not impaired** | **More than 90 days past due but not impaired** | **Total** |
| Trade receivables (RM'000) | 16,788 | 3,987 | 1,545 | 363 | 224 | 22,907 |
| % of total trade receivables (%) | 73.29 | 17.41 | 6.74 | 1.58 | 0.98 | 100.00 |
| Subsequent collections up to the LPD (RM'000) | 15,957 | 3,662 | 1,523 | 363 | 202 | 21,707 |
| Trade receivables net of subsequent collections (RM'000) | 831 | 325 | 22 | - | 22 | 1,200 |
| % of trade receivables net of subsequent collections to total trade receivables net of subsequent collections (%) | 69.25 | 27.09 | 1.83 | - | 1.83 | 100.00 |

As at the LPD, RM1.20 million of the outstanding trade receivables as at 30 September 2020 has yet to be collected. 30.75% of the total trade receivables net of subsequent collections as at LPD of RM0.37 million have exceeded the credit period. The overdue payment is mainly from 8 customers and the majority of amount outstanding is from Ideal Quality Sdn Bhd for RM0.31 million and Pembinaan Thong Lian Sdn Bhd of RM0.02 million.

Our normal trade terms are cash term and credit terms ranges between 30 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 reason for the customers' inability to pay within the normal credit period. We use ageing analysis to monitor the credit quality of our trade receivables.

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.

Our average trade receivables turnover period as at FYE 2017, FYE 2018, FYE 2019 and FPE 2020 were 103 days, 82 days, 96 days and 135 days.

The trade receivables turnover period in FYE 2017 of 103 days was higher than our normal credit terms granted to our customers due to delay in payments from Central Medicare Sdn Bhd of RM1.33 million, HL Advance Technologies (M) Sdn Bhd of RM0.55 million (which were subsequently repaid) as well as Smart Glove Corporation Sdn Bhd of RM0.36 million as at 31 December 2017.

Trade receivables turnover period decreased from approximately 103 days in FYE 2017 to approximately 82 days in FYE 2018 mainly due to improvement in collections and was within the normal credit terms granted to our customers of between 30 to 90 days. The improvement in collections is mainly due to collections from Central Medicare Sdn Bhd of

RM1.04 million and HL Advance Technologies (M) Sdn Bhd of RM0.55 million. The balance of RM0.29 million due from Central Medicare Sdn Bhd was collected in FYE 2019.

Trade receivables turnover period increased from approximately 82 days in FYE 2018 to approximately 96 days in FYE 2019 and has exceeded our normal credit terms granted to our customers of between 30 to 90 days. The increase in trade receivable turnover period was mainly due to the increase in amount due from the Hartalega Group of RM5.9 million (FYE 2018: RM3.7 million) and Eco Medi Glove Sdn Bhd of RM1.57 million (FYE 2018: RM0.75 million). Subsequent to the LPD, the Hartalega Group has fully repaid the amount outstanding while RM0.16 million is pending from Eco Medi Glove Snd Bhd. Nevertheless, our trade receivables turnover period is within the industry range of between 65 days to 276 days. The industry range is derived from the range of trade receivables turnover of the key industry players listed in the IMR Report, based on the respective latest available financial reports.

In addition, we recorded an allowance for expected credit loss of RM0.56 million in FYE 2019. The expected credit loss was provided under MFRS 9 - Financial Instruments. This was due to the delay in payment by 3 customers, namely Smart Glove Corporation Sdn Bhd (RM1.33 million), Sigma Glove Industries Sdn Bhd (RM0.01 million) and GX Corporation Sdn Bhd (RM0.01 million). The total amount owing by these customers is RM1.35 million as at FYE 2019. Payments amounting to RM1.33 million has been collected from Smart Glove Corporation Sdn Bhd in FPE 2020. Amount due from Sigma Glove Industries Sdn Bhd and GX Corporation Sdn Bhd of RM0.02 million was collected subsequent to FPE 2020.

Trade receivables turnover period increased to approximately 135 days in FPE 2020 and has exceeded our normal credit terms granted to our customers of between 30 to 90 days. The increase in trade receivable turnover period was mainly due to the increase in amount due from YTY Industry Sdn Bhd of RM2.28 million (FYE 2019: RM0.01 million) and Central Medicare Sdn Bhd of RM0.94 million (FYE 2019: RM0.02 million). Subsequent to FPE 2020, the Central Medicare Sdn Bhd and YTY Industry Sdn Bhd have fully repaid the amount outstanding.

### 11.7.2 Trade payables turnover

The ageing analysis of our trade payables as at 30 September 2020 is as follows:

| | | Exceeding credit period | | | | |
|---|---|---|---|---|---|---|
| | **Within credit term** | **1 to 30 days past due** | **31 to 60 days past due** | **61 - 120 days past due** | **More than 120 days past due** | **Total** |
| Trade payables (RM'000) | 7,237 | 1,373 | 281 | 25 | - | 8,916 |
| % of total trade payables (%) | 81.16 | 15.40 | 3.15 | 0.29 | - | 100.00 |
| Subsequent payments up to the LPD (RM'000) | 7,237 | 1,373 | 281 | 25 | - | 8,916 |
| Trade payables net of subsequent payments (RM'000) | - | - | - | - | - | - |
| % of trade payables net of subsequent payments to total trade payables net of subsequent payments (%) | - | - | - | - | - | - |

The normal trade terms granted to our Group by our suppliers are cash term and credit terms of up to 120 days.

Our average trade payables turnover period as at FYE 2017, FYE 2018, FYE 2019 and FPE 2020 were 99 days, 74 days, 78 days and 77 days, respectively, which is within the credit period given.

Trade payables turnover period decreased from approximately 99 days in FYE 2017 to approximately 74 days in FYE 2018 as we recorded an increase in our revenue which resulted in higher project deposits received. As such, we were able to pay our suppliers in a shorter period as compared to FYE 2018.

As at the LPD, there are no outstanding trade payables as at 30 September 2020 that has not been paid.

### 11.7.3 Inventories

The table below sets out a summary of our Group's inventories for the financial years/period under review:

| | **Audited** | | | |
|---|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** | **FPE 2020** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Opening inventories | 630 | 1,662 | 2,818 | 4,195 |
| Closing inventories | 1,662 | 2,818 | 4,195 | 4,807 |
| Cost of sales | 21,447 | 36,331 | 35,883 | 27,306 |
| Average inventories turnover period (days) | 19 | 22 | 35 | 45 |

Our inventory turnover period is approximately 19 to 45 days.

Our Group's inventories consist of raw materials and finished goods. Raw materials mainly consist of, amongst others, plastic resins, FRP materials, FRP grating, PVC pipes and fittings and titanium coils. Finished goods consist of manufactured products that are ready to be delivered to our customers for installation.

| | **Audited** | | | |
|---|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** | **FPE 2020** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Closing inventory | | | | |
| - Raw materials | 961 | 2,100 | 1,847 | 2,433 |
| - Finished goods | 701 | 718 | 2,348 | 2,374 |
| | **1,662** | **2,818** | **4,195** | **4,807** |

As at 31 December 2019, we recorded an increase in finished goods from RM0.72 million to RM2.35 million for glove chlorination systems, storage tanks and process tanks where the manufacturing work was completed but pending delivery. The finished goods as at 31 December 2019 were subsequently delivered. This resulted in an increase in our inventory turnover period from 22 days to 35 days for FYE 2019.

In FPE 2020, our inventory turnover period increased further to 45 days. We recorded closing inventory comprising raw materials of RM2.43 million and finished goods of RM2.37 million which is comparably higher than our closing inventory in FYE 2019. We had increased our stocking of raw materials to cater for new projects secured during FPE 2020.

We do not have a policy for inventories and impairment on slow moving stocks as our inventories comprising raw materials and monitoring and control instruments are mostly purchased upon confirmation of a project where project deposits are also received. Notwithstanding the absence of a written policy, we conduct a monthly management meeting to review the stockholding level, inventory ageing analysis as well as slow moving stocks assessment (if required). Approval is required from authorised personnel at management level for replenishment of stocks and impairment on slow moving stocks.

For the past 3 FYEs and FPE 2020, we did not record any provision for slow moving stocks as our inventories comprising raw materials and monitoring and control instruments are mostly purchased upon confirmation of a project where project deposits are also received.

Our Group practices first-in-first-out basis in computing the cost of inventories, work-in-progress, and finished goods. The costs of raw materials include invoices value of goods purchased and expenditure incurred in acquiring the inventories. The cost of finished goods comprises supplies cost, direct labour cost and an appropriate proportion of factory expenses.

### 11.7.4 Current ratio

Our current ratio, current assets and current liabilities for the financial years/period under review are as follows:

| | **Audited** | | | |
|---|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** | **FPE 2020** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Current assets | 16,725 | 25,044 | 21,219 | 41,360 |
| Current liabilities | (8,459) | (15,238) | (8,705) | (26,912) |
| **Net current assets** | **8,266** | **9,806** | **12,514** | **14,448** |
| Current ratio (times) | 1.98 | 1.64 | 2.44 | 1.54 |

Our current ratio ranged from 1.64 times to 2.44 times for the financial years/period under review, indicating that our Group is capable of meeting our current obligations as our current assets such as inventory and trade receivables, which can be readily converted to cash, together with our cash in the bank are enough to meet immediate current liabilities.

The current ratio decreased from 1.98 times as at 31 December 2017 to 1.64 times as at 31 December 2018 due to increase in trade payables for the purchase of supplies to support the our increase in sales. We also recorded an increase in contract liabilities which are project deposits made by our customers for the initiation of projects.

The current ratio increased from approximately 1.64 times as at 31 December 2018 to approximately 2.44 times as at 31 December 2019 as we recorded lower current liabilities as at 31 December 2019 mainly due to decrease in project deposits received as at 31 December 2019 as compared to the preceding year as well as decrease in trade payables resulting from lower purchases. The current ratio decreased to 1.54 times as at 30 September 2020, which was attributable to higher current liabilities resulting from projects deposits received from Ever Growth (Vietnam) Co Ltd, Onetexx Sdn Bhd and Sri Trang Group.

### 11.7.5 Gearing ratio

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

| | Audited | | | |
|---|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** | **FPE 2020** |
| Total borrowings (including lease liabilities) (RM'000) | 5,174 | 5,411 | 7,783 | 10,792 |
| Total equity (RM'000) | 13,379 | 17,759 | 21,481 | 23,426 |
| Gearing ratio (times) | 0.39 | 0.30 | 0.36 | 0.46 |

Our Group's gearing ratio ranged from 0.30 times to 0.46 times for the FYEs and FPE under review.

During FPE 2020, our borrowings increased to RM10.79 million mainly due to the drawdown of term loan for the purchase of 2 adjoining semi-detached factory units in Banting. The improvement in our total equity is as a result of the PAT recorded for the past FYEs.

## 11.8 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

There were no government, economic, fiscal or monetary policies or factors which have materially affected our financial performance during the financial years/period under review.

There is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward. Risks relating to government, economic, fiscal or monetary policies or factors which may adversely and materially affect our operations are set out in Section 8.

## 11.9 IMPACT OF INFLATION

Our Group is of the view that the current inflation rate does not have a material impact on our business, financial condition or results of our operation. However, any significant increase in future inflation may adversely affect our Group's operations and performance insofar as we are unable to pass on the higher costs to our customers through increase in selling prices.

## 11.10 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND/OR COMMODITY PRICES

### 11.10.1 Impact of foreign exchange rates

We are exposed to transactional currency exposure as approximately 18.19%, 21.94%, 31.82% and 13.72% of our total revenue were denominated in USD for the past 3 FYEs 2017 to 2019 and FPE 2020 respectively. Our Group's GP margin is therefore directly affected by the foreign currencies exchange rate fluctuation.

An appreciation of the RM against the USD may ultimately affect our revenue. This may adversely affect our financial performance as it would reduce our GP margin.

The prices of certain raw materials such as plastic resins and mild steel are subject to fluctuations as a result of global demand and supply conditions. Further, the prices of certain raw materials, and monitoring and control instruments that are sourced from overseas which are denominated in foreign currencies are also subject to fluctuations as a result of foreign exchange fluctuation. For the past 3 FYEs 2017 to 2019 and FPE 2020, our purchase of supplies from overseas suppliers as a percentage of total purchases are 9.21%, 14.02%, 10.21% and 5.58% respectively. Plastic resins that are sourced from local suppliers are also subject to foreign currency fluctuation as it may be imported by local suppliers.

For the past 3 FYEs 2017 to 2019 and FPE 2020, our gain and losses from the foreign exchange fluctuations are as follows:

| | FYE 2017 | FYE 2018 | FYE 2019 | FPE 2020 |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Realised foreign exchange gain/(loss) [(1)] | (148) | (223) | (298) | (106) |
| Unrealised foreign exchange gain/(loss) [(2)] | (9) | 59 | 131 | 147 |
| **Net gain / (loss)** | **(157)** | **(164)** | **(167)** | **41** |

Notes:

(1) Realised foreign exchange gain/(loss) is due to the following:

(i) The difference in the foreign exchange rate as at the date of our sales invoice as compared to the foreign exchange rate when the payment for the sales invoice is received.

If the foreign exchange rate as at the date of our sales invoice is higher as compared to the rate when the payment for the sales invoice is received, we will record a realised foreign exchange loss. Conversely, if the foreign exchange rate as at the date of our sales invoice is lower as compared to the rate when the payment for the sales invoice is received, we will record a realised foreign exchange gain.

(ii) The difference in the foreign exchange rate as at the date of our purchase invoice of supplies as compared to the foreign exchange rate when the payment for the supplies is made.

If the foreign exchange rate as at the date of our purchase invoice is lower as compared to the rate when the payment for the supplies is made, we will record a realised foreign exchange loss. Conversely, if the foreign exchange rate as at the date of our purchase invoice is higher as compared to the rate when the payment for the supplies is made, we will record a realised foreign exchange gain.

(2) Unrealised foreign exchange gain/(loss) represents the difference in the foreign exchange rate as at the date of our sales invoice/purchase invoice as compared to the foreign exchange spot rates as at respective FYEs and FPE.

Our Group does not hedge our exposure to fluctuations in foreign currency exchange rates. As at the LPD, we have not entered into any foreign exchange contracts. As such, we are subject to foreign exchange fluctuation risk for the purchase of our supplies and revenue from our foreign sales. A depreciation of the RM against the USD will lead to higher costs of supplies for our Group. In the event that we are unable to pass the increase in cost to our customers in a timely manner, our financial performances may be adversely affected due to the reduced GP margin from higher cost of supplies.

### 11.10.2 Impact of interest rates

Interest coverage ratio measures the number of times a company can make its interest payments with its profit before interest and tax. The interest coverage ratio for the past financial years/period under review is as follows:

| | Audited | | | |
|---|---|---|---|---|
| | **FYE 2017** | **FYE 2018** | **FYE 2019** | **FPE 2020** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Total borrowings (including lease liabilities) (RM'000) | 5,174 | 5,411 | 7,783 | 10,792 |
| Profit before interest and tax | 4,692 | 5,494 | 6,374 | 3,847 |
| Finance costs | 90 | 157 | 127 | 61 |
| Interest coverage ratio (times)(1) | 52.13 | 34.99 | 50.19 | 63.07 |

Note:

(1) Computed based on profit before interest and tax over finance costs.

Our interest coverage ratio of between 34.99 to 63.07 times for the FYEs 2017 to FYE 2019 and FPE 2020 indicates that our Group has been able to generate sufficient profits before interest and tax to meet our interest serving obligations.

In FYE 2018, Flexidynamic Engineering had extended an interest-free loan amounting to RM0.68 million to our employees for the acquisition of Flexidynamic Engineering Shares. Resulting from the said loan, MFRS 9 - Financial Instruments has been applied and RM0.042 million was recorded as other interest cost in FYE 2018. As such, our interest coverage ratio for FYE 2018 was lower at 34.99 times.

Our Group's financial results for the financial years/period under review were not materially affected by fluctuations in interest rates. However, major increase in interest rates would raise the cost of borrowings and our finance costs for our purchases of raw materials, which may have an adverse effect on the performance of our Group.

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## 11.11 ORDER BOOK

As at the LPD, we have secured total order book amounting to RM84.63 million, of which RM4.85 million of the secured total order book has been billed as at LPD and RM79.78 million has not been billed. The details of our order book are as follows:

| | Total order book as at LPD | Billed as at LPD | Unbilled amount as at LPD |
|---|---|---|---|
| | **RM'000** | **RM'000** | **RM'000** |
| **Malaysia** | | | |
| Glove chlorination systems | 19,378 | 2,650 | 16,728 |
| Repair, refurbishment and maintenance | 406 | 61 | 345 |
| Trading of replacement parts | 857 | 371 | 486 |
| Storage and process tanks | 11,271 | 1,078 | 10,193 |
| Other products and services | 10,364 | 435 | 9,929 |
| **Overseas** | | | |
| Glove chlorination systems | 41,718 | - | 41,718 |
| Trading of replacement parts | 393 | 132 | 261 |
| Other products and services | 245 | 125 | 120 |
| | **84,632** | **4,852** | ***79,780** |

Note:

* RM62.30 million is expected to be recognised as revenue for the financial year ending 31 December 2021. The remaining RM17.48 million is expected to be recognised during 2022.

We believe that our revenue stream is sustainable as glove chlorination systems are essential component in the rubber glove manufacturing processes and hence, we see the opportunity to leverage and grow along with the growth in the rubber glove manufacturing industry in Malaysia. With the increase in rubber glove manufacturing activities in Malaysia, glove manufacturers may expand their glove production capacity, which will lead to an increasing demand for glove-dipping lines and consequently, demand for glove chlorination systems. As such, we expect to leverage on this to capitalise on the growth in the rubber glove manufacturing activities in Malaysia.

## 11.12 TREND INFORMATION

Based on our track record for the past years/period under review, including our segmental analysis of revenue and profitability, the following trends are expected to continue:

(a) More than 55% of our revenue was derived from the glove chlorination systems segment. We expect the glove chlorination systems segment to continue contributing significantly to our revenue in the future;

(b) More than 60% of our revenue is derived locally. We expect the main contributor for our revenue to be from the local market. Nevertheless, we plan to continue to grow in our overseas market;

(c) Our top 5 major customers are involved in the manufacturing of gloves and contributed more than 70% of our total revenue. We expect sales to glove manufacturers to continue contributing significantly to our revenue in the future; and

(d) The main components of our cost of sales are supplies and subcontractor costs which consistently constitute more than 60.0% and 15.0% of our total cost of sales, respectively. We expect this trend to continue.

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

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

(ii) Material commitments for capital expenditure save as disclosed in Section 11.6;

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

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

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

Our Board is optimistic about the future prospects of our Group given our Group's competitive strengths set out in Section 6.8 and our Group's intention to implement the business strategies as set out in Section 6.19.

## 11.13 DIVIDENDS

Our Company does not have any formal dividend policy. As we are a holding company, our Company's income and therefore our ability to pay dividends is dependent upon the dividends we receive from our subsidiary, present or future. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, and consent from our financiers as set out in the respective facility agreements, there are no legal, financial, or economic restrictions on the ability of our existing subsidiary to transfer funds in the form of cash dividends, loans or advances to us. Generally, consent from the financier is required if any payment or declaration of such dividend exceeds or will exceed the PAT or a specific PAT threshold as prescribed in the respective facility agreement.

The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of our Board and any final dividends for the year are subject to shareholders' approval. Actual dividends proposed and declared may vary depending on the financial performance and cash flows of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group.

In respect of FYEs 2017 to 2019 and FPE 2020, dividends declared by our subsidiary were as follows:

| | FYE 2017 | FYE 2018 | FYE 2019 | FPE 2020 |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Dividends declared | 1,000 | 900 | 960 | 700 |

Notes:

(i) **FYE 2017**

- RM0.20 million was declared on 12 January 2017 and paid on 17 January 2017;
- RM0.20 million was declared on 18 May 2017 and paid on 28 May 2017;
- RM0.20 million was declared on 21 August 2017 and paid on 28 August 2017; and
- RM0.40 million was declared on 22 December 2017 and paid on 17 January 2018.

(ii) **FYE 2018**

- RM0.30 million was declared on 18 May 2018 and paid on 28 May 2018;
- RM0.30 million was declared on 23 August 2018 and paid on 28 August 2018; and
- RM0.30 million was declared on 17 December 2018 and paid on 17 December 2018.

(iii) **FYE 2019**

- RM0.36 million was declared on 23 April 2019 and paid on 28 April 2019;
- RM0.30 million was declared on 4 July 2019 and paid on 9 July 2019; and
- RM0.30 million was declared on 4 October 2019 and paid on 7 October 2019.

(iii) **FPE 2020**

- RM0.70 million was declared on 4 March 2020 and paid on 17 March 2020.

Subsequent to FPE 2020, Flexidynamic Engineering had on 4 January 2021 declared a dividend of RM0.30 million in respect of FYE 31 December 2020. The dividend was paid on 7 January 2021. The dividends paid are funded via internally generated funds. Our Board do not foresee that dividends paid subsequent to FPE 2020 would affect the execution and implementation of our future plans or strategies moving forward.

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## 11.14 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness as at 31 January 2021 and after adjusting for the effects of the Acquisition of Flexidynamic Engineering and Public Issue including the utilisation of proceeds from the Public Issue.

| | **Flexidynamic Holdings** | **II** | **III** |
|---|---|---|---|
| | **As at 31 January 2021 (1)** | **After I and Public Issue** | **After II and utilisation of proceeds** |
| | **RM'000** | **RM'000** | **RM'000** |
| **Capitalisation** | | | |
| Shareholders' equity | 24,538 | 39,584 | 36,584 |
| **Total capitalisation** | **24,538** | **39,584** | **36,584** |
| | | | |
| **Indebtedness(2)** | | | |
| ***Current*** | | | |
| Bankers' acceptance | 668 | 668 | 668 |
| Term loans | 384 | 384 | 384 |
| Lease liabilities | 263 | 263 | 263 |
| ***Non-current*** | | | |
| Term loans | 9,052 | 9,052 | 3,515 |
| Lease liabilities | 531 | 531 | 531 |
| Contingent liabilities | 11,617 | 11,617 | 11,617 |
| **Total indebtedness** | **22,515** | **22,515** | **16,978** |
| | | | |
| **Total capitalisation and indebtedness** | **47,053** | **62,099** | **53,562** |
| | | | |
| **Gearing ratio (3)(times)** | **0.92** | **0.57** | **0.46** |

Notes:

(1) The Acquisition of Flexidynamic Engineering was completed on 9 December 2020.

(2) All of our indebtedness are secured.

(3) Calculated based on the total indebtedness divided by the total capitalisation.

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# FLEXIDYNAMIC HOLDINGS BERHAD

**Registration No.: 201901010656 (1319984 - V)**

(Incorporated in Malaysia)

# ACCOUNTANTS' REPORT
# FOR THE FINANCIAL PERIODS/YEARS ENDED 30 SEPTEMBER 2020, 30 SEPTEMBER 2019, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017

**GRANT THORNTON MALAYSIA PLT**

**CHARTERED ACCOUNTANTS**

**Member of Grant Thornton International Ltd**

Grant Thornton Malaysia PLT
Level 11, Sheraton Imperial Court
Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia

T +603 2692 4022
F +603 2691 5229

Date: 16 February 2021

The Board of Directors
**Flexidynamic Holdings Berhad**
A-3A-28, IOI Boulevard
Jalan Kenari 5
Bandar Puchong Jaya
47170 Puchong
Selangor Darul Ehsan

Dear Sirs,

**Reporting Accountants' Opinion On The Financial Information Contained In The Accountants' Report Of Flexidynamic Holdings Berhad ("the Company" or "Flexi")**

*Opinion*

We have audited the accompanying combined financial statements ("Financial Information") of Flexidynamic Holdings Berhad and its combining entities (collectively known as "the Group" or "Flexi Group") which comprises the combined statements of financial position of the Group as at 30 September 2020, 31 December 2019, 31 December 2018 and 31 December 2017, and the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the financial periods/years ended 30 September 2020, 31 December 2019, 31 December 2018 and 31 December 2017, and a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 83.

In our opinion, the accompanying Financial Information give a true and fair view of the combined financial position of the Group as at 30 September 2020, 31 December 2019, 31 December 2018 and 31 December 2017 and of their combined financial performance and combined cash flows for the financial periods/years then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

*Basis for opinion*

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Reporting Accountants' Responsibilities for the Audit of the Financial Information* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

*Responsibilities of the Directors for the Financial Information*

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

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

*Reporting Accountants' Responsibilities for the Audit of Financial Information*

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

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

- Identify and assess the risks of material misstatement of the Financial Information of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our reporting accountants' report to the related disclosures in the Financial Information 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 report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Grant Thornton

*Reporting Accountants' Responsibilities for the Audit of Financial Information (cont'd)*

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

- Evaluate the overall presentation, structure and content of the Financial Information of the Group, including the disclosures, and whether the Financial Information of the Group represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the Financial Information of the entities or business activities within the Group to express and opinion on the Financial Information of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicated 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 identified during our audit.

*Other matter*

The comparative information in respect of the combined statements of financial position, combined statements of profit or loss and other comprehensive income, combined statements of changes in equity, combined statements of cash flows and related notes to the combined financial statements for the financial period ended 30 September 2019 has not been audited.

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

| | |
|---|---|
| GRANT THORNTON MALAYSIA PLT | LIAN TIAN KWEE |
| (201906003682 & LLP0022494-LCA) | (NO.: 02943/05/2021 J) |
| CHARTERED ACCOUNTANTS (AF 0737) | CHARTERED ACCOUNTANT |

Kuala Lumpur
16 February 2021

**FLEXIDYNAMIC HOLDINGS BERHAD**
(Incorporated in Malaysia)

**COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2020, 30 SEPTEMBER 2019, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017**

| | Note | Audited 30.9.2020 RM | Unaudited 30.9.2019 RM | Audited 31.12.2019 RM | Audited 31.12.2018 RM | Audited 31.12.2017 RM |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **NON-CURRENT ASSETS** | | | | | | |
| Property, plant and equipment | 5 | 15,274,192 | 9,340,168 | 12,401,944 | 8,728,173 | 7,663,137 |
| Investments in equity instruments | 6 | - | 3,038,394 | 2,822,778 | 2,659,728 | 2,292,360 |
| Deferred tax assets | 7 | 2,888,549 | - | 122,109 | 699,834 | - |
| Other receivables | 8 | 189,528 | 339,036 | 291,231 | 401,967 | - |
| Total non-current assets | | 18,352,269 | 12,717,598 | 15,638,062 | 12,489,702 | 9,955,497 |
| **CURRENT ASSETS** | | | | | | |
| Inventories | 9 | 4,806,628 | 3,450,633 | 4,195,512 | 2,817,658 | 1,661,425 |
| Trade receivables | 10 | 22,906,700 | 8,753,521 | 11,756,640 | 14,465,297 | 7,375,082 |
| Other receivables | 8 | 1,819,158 | 1,999,505 | 1,310,923 | 1,041,259 | 359,140 |
| Amount due from a Director | 11 | - | 274,036 | - | 179,923 | - |
| Amount due from a shareholder | 12 | - | - | - | 215,146 | - |
| Tax recoverable | | - | 745,729 | 26,374 | - | 4,459 |
| Fixed deposits with a licensed financial institution | 13 | - | 1,187,363 | - | 1,160,193 | 1,123,785 |
| Cash and bank balances | | 11,827,006 | 3,379,213 | 3,929,788 | 5,164,473 | 6,200,919 |
| Total current assets | | 41,359,492 | 19,790,000 | 21,219,237 | 25,043,949 | 16,724,810 |
| **TOTAL ASSETS** | | 59,711,761 | 32,507,598 | 36,857,299 | 37,533,651 | 26,680,307 |
| **EQUITY AND LIABILITIES** | | | | | | |
| **EQUITY** | | | | | | |
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY** | | | | | | |
| Share capital | 14 | 733,778 | 733,778 | 733,778 | 616,879 | 514,610 |
| Capital reserve | 15 | 631,154 | 631,154 | 631,154 | 631,154 | - |
| Foreign exchange reserve | | 46,146 | 56,059 | 56,787 | 16,964 | 5,818 |
| Retained earnings | | 21,776,716 | 17,485,559 | 19,771,946 | 16,126,206 | 12,737,609 |
| Total equity attributable to owners of the Company | | 23,187,794 | 18,906,550 | 21,193,665 | 17,391,203 | 13,258,037 |
| Non-controlling interest | 16 | 237,923 | 325,330 | 288,059 | 367,623 | 121,254 |
| **TOTAL EQUITY** | | 23,425,717 | 19,231,880 | 21,481,724 | 17,758,826 | 13,379,291 |
| **LIABILITIES** | | | | | | |
| **NON-CURRENT LIABILITIES** | | | | | | |
| Bank borrowings | 17 | 8,622,643 | 3,944,247 | 6,176,565 | 4,223,720 | 4,536,985 |
| Lease liabilities | 18 | 751,178 | 558,498 | 494,247 | 313,614 | 294,746 |
| Deferred tax liabilities | 7 | - | 142,237 | - | - | 10,073 |
| Total non-current liabilities | | 9,373,821 | 4,644,982 | 6,670,812 | 4,537,334 | 4,841,804 |
| **CURRENT LIABILITIES** | | | | | | |
| Trade payables | 19 | 8,916,377 | 7,019,000 | 6,515,432 | 8,954,303 | 5,918,846 |
| Other payables and accruals | 20 | 285,961 | 417,489 | 385,625 | 1,174,486 | 1,300,775 |
| Contract liabilities | 21 | 13,001,915 | 24,140 | 692,284 | 3,400,461 | 761,868 |
| Bank borrowings | 17 | 1,130,423 | 940,233 | 892,926 | 729,752 | 174,166 |
| Lease liabilities | 18 | 287,270 | 229,874 | 218,496 | 144,279 | 167,951 |
| Tax payable | | 3,290,277 | - | - | 834,210 | 135,606 |
| Total current liabilities | | 26,912,223 | 8,630,736 | 8,704,763 | 15,237,491 | 8,459,212 |
| **TOTAL LIABILITIES** | | 36,286,044 | 13,275,718 | 15,375,575 | 19,774,825 | 13,301,016 |
| **TOTAL EQUITY AND LIABILITIES** | | 59,711,761 | 32,507,598 | 36,857,299 | 37,533,651 | 26,680,307 |

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

**FLEXIDYNAMIC HOLDINGS BERHAD**
(Incorporated in Malaysia)

**COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL PERIODS/YEARS ENDED 30 SEPTEMBER 2020, 30 SEPTEMBER 2019, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017**

| | Note | Audited<br>1.1.2020<br>to<br>30.9.2020<br>RM | Unaudited<br>1.1.2019<br>to<br>30.9.2019<br>RM | ← Audited<br>1.1.2019<br>to<br>31.12.2019<br>RM | Audited<br>1.1.2018<br>to<br>31.12.2018<br>RM | Audited →<br>1.1.2017<br>to<br>31.12.2017<br>RM |
|---|---|---|---|---|---|---|
| Revenue | 22 | 35,006,940 | 35,092,807 | 49,838,956 | 48,321,841 | 29,902,071 |
| Cost of sales | | (27,306,436) | (27,080,074) | (35,883,190) | (36,331,131) | (21,447,190) |
| Gross profit | | 7,700,504 | 8,012,733 | 13,955,766 | 11,990,710 | 8,454,881 |
| Other income | | 612,168 | 252,366 | 305,884 | 129,353 | 50,865 |
| Changes in fair value of equity investments | 6 | - | (318,808) | (534,424) | 242,794 | 552,904 |
| Reversal/(Allowance) for expected credit losses on trade receivables | 10 | 559,212 | - | (559,212) | - | - |
| Selling and distribution expenses | | (385,355) | (644,856) | (848,238) | (909,621) | (605,502) |
| Administrative expenses | | (4,010,513) | (3,691,354) | (4,956,648) | (4,710,302) | (3,117,599) |
| Other operating expenses | | (629,046) | (738,287) | (989,123) | (1,248,968) | (642,672) |
| Profit from operations | | 3,846,970 | 2,871,794 | 6,374,005 | 5,493,966 | 4,692,877 |
| Finance costs | 23 | (60,879) | (92,154) | (126,743) | (157,422) | (90,156) |
| Finance income | 23 | 18,679 | 38,918 | 59,849 | 42,370 | 33,646 |
| Profit before tax | 24 | 3,804,770 | 2,818,558 | 6,307,111 | 5,378,914 | 4,636,367 |
| Tax expense | 25 | (1,139,061) | (773,712) | (1,711,721) | (961,991) | (213,354) |
| Profit for the financial periods/years | | 2,665,709 | 2,044,846 | 4,595,390 | 4,416,923 | 4,423,013 |
| Other comprehensive income:- | | | | | | |
| **Item that will be reclassified subsequently to profit or loss** | | | | | | |
| Foreign currency translation | | (21,716) | 79,786 | 81,272 | 22,746 | (2,292) |
| **Other comprehensive income for the financial periods/years, net of tax** | | (21,716) | 79,786 | 81,272 | 22,746 | (2,292) |
| Total comprehensive income for the financial periods/years | | 2,643,993 | 2,124,632 | 4,676,662 | 4,439,669 | 4,420,721 |
| **Profit for the financial periods/years attributable to:-** | | | | | | |
| Owners of the Company | | 2,704,770 | 2,019,353 | 4,605,740 | 4,288,597 | 4,396,452 |
| Non-controlling interest | | (39,061) | 25,493 | (10,350) | 128,326 | 26,561 |
| | | 2,665,709 | 2,044,846 | 4,595,390 | 4,416,923 | 4,423,013 |
| **Total comprehensive income for the financial periods/years** | | | | | | |
| Owners of the Company | | 2,694,129 | 2,058,448 | 4,645,563 | 4,299,743 | 4,395,329 |
| Non-controlling interest | | (50,136) | 66,184 | 31,099 | 139,926 | 25,392 |
| | | 2,643,993 | 2,124,632 | 4,676,662 | 4,439,669 | 4,420,721 |
| Earnings per share | | | | | | |
| - Basic (sen) | 26 | 520.35 | 389.86 | 888.45 | 854.34 | 877.14 |
| - Diluted (sen) | 26 | * | * | * | * | * |

** There are no dilutive potential equity instruments that would give a diluted effect to the basic earnings per share.*

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

**FLEXIDYNAMIC HOLDINGS BERHAD**
(Incorporated in Malaysia)

**COMBINED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR/PERIOD ENDED 31 DECEMBER 2017, 31 DECEMBER 2018, 31 DECEMBER 2019, 30 SEPTEMBER 2019 AND 30 SEPTEMBER 2020**

| | | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Non - distributable | | | Distributable | | | |
| | Note | Share capital | Capital reserve | Foreign exchange reserve | Retained earnings | Total | Non-controlling interest | Total equity |
| **Audited** | | RM | RM | RM | RM | RM | RM | RM |
| **Balance at 1 January 2017** | | 514,610 | - | 6,941 | 9,341,157 | 9,862,708 | 112,005 | 9,974,713 |
| Profit for the financial year | | - | - | - | 4,396,452 | 4,396,452 | 26,561 | 4,423,013 |
| Other comprehensive loss for the financial year | | - | - | (1,123) | - | (1,123) | (1,169) | (2,292) |
| Total other comprehensive (loss)/income for the financial year | | - | - | (1,123) | 4,396,452 | 4,395,329 | 25,392 | 4,420,721 |
| ***Transactions with owners:*** | | | | | | | | |
| Dividends paid | 27 | - | - | - | (1,000,000) | (1,000,000) | - | (1,000,000) |
| Dividend of subsidiary paid to non-controlling interest | | - | - | - | - | - | (16,143) | (16,143) |
| ***Total transactions with owners*** | | - | - | - | (1,000,000) | (1,000,000) | (16,143) | (1,016,143) |
| **Balance at 31 December 2017** | | 514,610 | - | 5,818 | 12,737,609 | 13,258,037 | 121,254 | 13,379,291 |
| Profit for the financial year | | - | - | - | 4,288,597 | 4,288,597 | 128,326 | 4,416,923 |
| Other comprehensive income for the financial year | | - | - | 11,146 | - | 11,146 | 11,600 | 22,746 |
| Total other comprehensive income for the financial year | | - | - | 11,146 | 4,288,597 | 4,299,743 | 139,926 | 4,439,669 |
| ***Transactions with owners:*** | | | | | | | | |
| Dividends paid | 27 | - | - | - | (900,000) | (900,000) | - | (900,000) |
| Issuance of ordinary shares | 14 | 102,269 | - | - | - | 102,269 | 106,443 | 208,712 |
| Employees benefit through transfer of the Group share to employees | | - | 631,154 | - | - | 631,154 | - | 631,154 |
| ***Total transactions with owners*** | | 102,269 | 631,154 | - | (900,000) | (166,577) | 106,443 | (60,134) |
| **Balance at 31 December 2018** | | 616,879 | 631,154 | 16,964 | 16,126,206 | 17,391,203 | 367,623 | 17,758,826 |
| Profit/(Loss) for the financial year | | - | - | - | 4,605,740 | 4,605,740 | (10,350) | 4,595,390 |
| Other comprehensive income for the financial year | | - | - | 39,823 | - | 39,823 | 41,449 | 81,272 |
| Total other comprehensive income for the financial year | | - | - | 39,823 | 4,605,740 | 4,645,563 | 31,099 | 4,676,662 |
| ***Transactions with owners:*** | | | | | | | | |
| Dividends paid | 27 | - | - | - | (960,000) | (960,000) | - | (960,000) |
| Dividend of subsidiary paid to non-controlling interest | | - | - | - | - | - | (232,312) | (232,312) |
| At date of incorporation | 14 | 20 | - | - | - | 20 | - | 20 |
| Issuance of ordinary shares | 14 | 116,879 | - | - | - | 116,879 | 121,649 | 238,528 |
| ***Total transactions with owners*** | | 116,899 | - | - | (960,000) | (843,101) | (110,663) | (953,764) |
| **Balance at 31 December 2019** | | 733,778 | 631,154 | 56,787 | 19,771,946 | 21,193,665 | 288,059 | 21,481,724 |

**FLEXIDYNAMIC HOLDINGS BERHAD**
**(Incorporated in Malaysia)**

## COMBINED STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR/PERIOD ENDED 31 DECEMBER 2017, 31 DECEMBER 2018, 31 DECEMBER 2019, 30 SEPTEMBER 2019 AND 30 SEPTEMBER 2020 (CONT'D)

| | | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Non - distributable | | | Distributable | | | |
| | Note | Share capital RM | Capital reserve RM | Foreign exchange reserve RM | Retained earnings RM | Total RM | Non-controlling interest RM | Total equity RM |
| **Audited (cont'd)** | | | | | | | | |
| **Balance at 1 January 2020** | | 733,778 | 631,154 | 56,787 | 19,771,946 | 21,193,665 | 288,059 | 21,481,724 |
| Profit/(Loss) for the financial period | | - | - | - | 2,704,770 | 2,704,770 | (39,061) | 2,665,709 |
| Other comprehensive loss for the financial period | | - | - | (10,641) | - | (10,641) | (11,075) | (21,716) |
| Total other comprehensive (loss)/income for the financial period | | - | - | (10,641) | 2,704,770 | 2,694,129 | (50,136) | 2,643,993 |
| ***Transactions with owners:*** | | | | | | | | |
| Dividends paid | 27 | - | - | - | (700,000) | (700,000) | - | (700,000) |
| **Balance at 30 September 2020** | | 733,778 | 631,154 | 46,146 | 21,776,716 | 23,187,794 | 237,923 | 23,425,717 |
| **Unaudited** | | | | | | | | |
| **Balance at 1 January 2019** | | 616,879 | 631,154 | 16,964 | 16,126,206 | 17,391,203 | 367,623 | 17,758,826 |
| Profit for the financial period | | - | - | - | 2,019,353 | 2,019,353 | 25,493 | 2,044,846 |
| Other comprehensive income for the financial period | | - | - | 39,095 | - | 39,095 | 40,691 | 79,786 |
| Total other comprehensive income for the financial period | | - | - | 39,095 | 2,019,353 | 2,058,448 | 66,184 | 2,124,632 |
| ***Transactions with owners:*** | | | | | | | | |
| Dividends paid | 27 | - | - | - | (660,000) | (660,000) | - | (660,000) |
| Dividend of subsidiary paid to non-controlling interest | | - | - | - | - | - | (230,126) | (230,126) |
| At date of incorporation | 14 | 20 | - | - | - | 20 | - | 20 |
| Issuance of ordinary shares | 14 | 116,879 | - | - | - | 116,879 | 121,649 | 238,528 |
| ***Total transactions with owners*** | | 116,899 | - | - | (660,000) | (543,101) | (108,477) | (651,578) |
| **Balance at 30 September 2019** | | 733,778 | 631,154 | 56,059 | 17,485,559 | 18,906,550 | 325,330 | 19,231,880 |

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

**FLEXIDYNAMIC HOLDINGS BERHAD**
(Incorporated in Malaysia)

**COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL PERIODS/YEARS ENDED 30 SEPTEMBER 2020, 30 SEPTEMBER 2019, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017**

| | Note | Audited 1.1.2020 to 30.9.2020 RM | Unaudited 1.1.2019 to 30.9.2019 RM | Audited 1.1.2019 to 31.12.2019 RM | Audited 1.1.2018 to 31.12.2018 RM | Audited 1.1.2017 to 31.12.2017 RM |
|---|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | | |
| Profit before tax | | 3,804,770 | 2,818,558 | 6,307,111 | 5,378,914 | 4,636,367 |
| **Adjustments for:-** | | | | | | |
| Depreciation of property, plant and equipment | | 552,667 | 460,857 | 633,122 | 555,333 | 478,082 |
| (Reversal)/Allowance for expected credit losses on trade receivables | | (559,212) | - | 559,212 | - | - |
| Finance costs:- | | | | | | |
| - Term loan interest | | 28,132 | 41,299 | 63,053 | 74,937 | 64,276 |
| - Bankers' acceptance interest | | 16,036 | 31,541 | 35,046 | 17,788 | 3,439 |
| - Interest on lease liabilities | | 16,327 | 19,314 | 28,644 | 22,686 | 22,441 |
| - Others | | 384 | - | - | 42,011 | - |
| Finance income:- | | | | | | |
| - Fixed deposits with a licensed financial institution | | (15,836) | (27,170) | (30,050) | (36,407) | (32,202) |
| - Current account | | (2,843) | (11,748) | (16,875) | (5,963) | (1,444) |
| - Others | | - | - | (12,924) | - | - |
| Gain on disposal of property, plant and equipment | | - | (82,890) | (83,945) | (12,144) | (27,650) |
| Unrealised (gain)/loss on foreign exchange | | (146,643) | (92,871) | (131,177) | (59,241) | 8,836 |
| Dividend income | | - | (40,934) | (55,995) | (54,738) | (23,203) |
| (Gain)/Loss on disposal of investment in equity instruments | | (304,728) | (34,267) | (34,267) | 14,700 | - |
| Property, plant and equipment written off | | 209 | 1,253 | 1,252 | 380,233 | 105 |
| Fair value loss/(gain) on investment in equity instruments | | - | 318,808 | 534,424 | (242,794) | (552,904) |
| Employee benefits through transfer of the Company share to employees | | - | - | - | 631,154 | - |
| Operating profit before capital changes | | 3,389,263 | 3,401,750 | 7,796,631 | 6,706,469 | 4,576,143 |
| Changes in working capital:- | | | | | | |
| Inventories | | (611,116) | (632,975) | (1,377,854) | (1,156,233) | (1,031,898) |
| Receivables | | (10,962,585) | 4,792,696 | 1,975,968 | (8,287,278) | 2,141,175 |
| Payables | | 14,610,912 | (6,068,621) | (5,935,909) | 5,947,761 | 685,682 |
| Cash generated from operations | | 6,426,474 | 1,492,850 | 2,458,836 | 3,210,719 | 6,371,102 |
| Tax refunded | | - | - | - | - | 1,312 |
| Tax paid | | (588,850) | (1,513,265) | (2,020,748) | (973,875) | (124,661) |
| Net cash flows from operating activities | | 5,837,624 | (20,415) | 438,088 | 2,236,844 | 6,247,753 |
| **INVESTING ACTIVITIES** | | | | | | |
| Purchase of property, plant and equipment | A | (503,720) | (645,058) | (1,596,209) | (1,838,227) | (148,110) |
| Dividend received | | - | 40,934 | 55,995 | 54,738 | 23,203 |
| Proceeds from subscription of additional shares in an existing subsidiary | | - | 116,899 | 116,899 | 102,269 | - |
| Proceeds from subscription of additional shares in an existing subsidiary by non-controlling interest | | - | 121,649 | 121,649 | 106,443 | - |
| Proceeds from disposal of investment in equity instruments | | 3,127,506 | 949,440 | 949,440 | 313,800 | - |
| Purchase of investment in equity instruments, net | | - | (1,612,647) | (1,612,647) | (453,074) | (63,749) |
| Interest received | | 18,679 | 38,918 | 46,925 | 42,370 | 33,646 |
| Proceeds from disposal of property, plant and equipment | | - | 108,000 | 109,055 | 55,000 | 35,850 |
| Net cash flows from/(used in) investing activities | | 2,642,465 | (881,865) | (1,808,893) | (1,616,681) | (119,160) |
| **FINANCING ACTIVITIES** | | | | | | |
| Dividends paid | C | (700,000) | (660,000) | (960,000) | (1,300,000) | (600,000) |
| Dividend of subsidiary paid to non-controlling interest | | - | (230,126) | (232,312) | - | (16,143) |
| Interest paid | | (60,879) | (92,154) | (126,743) | (115,411) | (90,156) |
| (Placement)/Uplift of fixed deposits with a licensed financial institution | | - | (27,170) | 1,160,193 | (36,408) | (32,202) |
| Drawdown of bank borrowings | | 1,250,000 | 1,787,000 | 2,307,225 | 551,855 | 9,855 |
| Repayment of bank borrowings | | (1,072,625) | (1,855,992) | (2,476,301) | (309,534) | (420,192) |
| Repayment of lease liabilities | | (103,033) | (111,561) | (188,654) | (209,304) | (168,698) |
| (Advance to)/Repayment from to a Director | | - | (94,113) | 179,923 | (179,923) | - |
| Repayment from/(Advance to) a shareholder | | - | 215,146 | 215,146 | (215,146) | - |
| Net cash flows used in financing activities | | (686,537) | (1,068,970) | (121,523) | (1,813,871) | (1,317,536) |

**FLEXIDYNAMIC HOLDINGS BERHAD**
(Incorporated in Malaysia)

### COMBINED STATEMENTS OF CASH FLOWS FOR THE FINANCIAL PERIODS/YEARS ENDED 30 SEPTEMBER 2020, 30 SEPTEMBER 2019, 31 DECEMBER 2019, 31 DECEMBER 2018 AND 31 DECEMBER 2017 (CONT'D)

| | Note | Audited 1.1.2020 to 30.9.2020 RM | Unaudited 1.1.2019 to 30.9.2019 RM | Audited 1.1.2019 to 31.12.2019 RM | Audited 1.1.2018 to 31.12.2018 RM | Audited 1.1.2017 to 31.12.2017 RM |
|---|---|---|---|---|---|---|
| **CASH AND CASH EQUIVALENTS** | | | | | | |
| Net changes | | 7,793,552 | (1,971,250) | (1,492,328) | (1,193,708) | 4,811,057 |
| Effect on foreign exchange translation | | 103,666 | 185,990 | 257,643 | 157,262 | 10,324 |
| At the beginning of the financial periods/years | | 3,929,788 | 5,164,473 | 5,164,473 | 6,200,919 | 1,379,538 |
| At the end of the financial periods/years | **B** | 11,827,006 | 3,379,213 | 3,929,788 | 5,164,473 | 6,200,919 |

**NOTES TO THE STATEMENT OF CASH FLOWS**

**A PURCHASE OF PROPERTY,PLANT AND EQUIPMENT**

The Group acquired property, plant and equipment with an aggregate cost of 30.9.2020: RM3,438,658 (30.9.2019: RM1,087,098; 31.12.2019: RM4,324,808; 31.12.2018: RM2,042,727 and 31.12.2017: RM346,110) of which 30.9.2020: RM428,738 (30.9.2019: RM442,040; 31.12.2019: RM443,504; 31.12.2018: RM204,500 and 31.12.2017: RM198,000) and 30.9.2020: RM2,506,200 (30.9.2019: RMNil; 31.12.2019: RM2,285,095; 31.12.2018: RMNil and 31.12.2017: RMNil) was acquired by means of finance lease and bank borrowing arrangement. Cash payment of 30.9.2020: RM503,720 (30.9.2019: RM645,058; 31.12.2019: RM1,596,209; 31.12.2018: RM1,838,227 and 31.12.2017: RM148,110) was made to purchase of property, plant and equipment.

**B CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the combined statements of cash flows comprise the following:-

| | Audited 30.9.2020 RM | Unaudited 30.9.2019 RM | Audited 31.12.2019 RM | Audited 31.12.2018 RM | Audited 31.12.2017 RM |
|---|---|---|---|---|---|
| Cash and bank balances | 11,827,006 | 3,379,213 | 3,929,788 | 5,164,473 | 6,200,919 |
| Fixed deposits pledged with a licensed financial institution | - | 1,187,363 | - | 1,160,193 | 1,123,785 |
| | 11,827,006 | 4,566,576 | 3,929,788 - | 6,324,666 - | 7,324,704 |
| Less: Fixed deposits pledged with a licensed financial institution (Note 13) | - | (1,187,363) | - | (1,160,193) | (1,123,785) |
| Cash and bank balances | 11,827,006 | 3,379,213 | 3,929,788 | 5,164,473 | 6,200,919 |

**C DIVIDENDS PAID**

The payment of dividend amounted to 30.9.2020: RM700,000 (30.9.2019: RM660,000; 31.12.2019: RM960,000; 31.12.2018: RM1,300,000 and 31.12.2017: RM600,000) of the Group are consist of interim dividend for the financial year ended 31 December 2020 and final dividend for the financial year ended 31 December 2019 amounted to RM700,000 and RMNil (30.9.2019: RM300,000 and RM360,000; 31.12.2019: RM600,000 and RM360,000; 31.12.2018: RM900,000 and RM400,000 and 31.12.2017: RM400,000 and RM200,000) respectively.

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

# FLEXIDYNAMIC HOLDINGS BERHAD
(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL INFORMATION

### 1. GENERAL INFORMATION

#### 1.1 Introduction

This report has been prepared solely to comply with the Prospectus Guidelines – Equity issued by the Securities Commission Malaysia and for inclusion in the prospectus of Flexidynamic Holdings Berhad ("the Company" or "Flexi") in connection with the listing of and quotation for the entire enlarged issued share capital of Flexi on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") (hereinafter defined as "the Listing"), and should not be relied upon for any other purposes.

#### 1.2 Background

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office is located at Level 15-2, Bangunan Faber Imperial Court, Jalan Sultan Ismail, 50250 Kuala Lumpur.

The principal place of business of the Company is located at A-3A-28, IOI Boulevard, Jalan Kenari 5, Bandar Puchong Jaya, 47170 Puchong, Selangor Darul Ehsan.

#### 1.3 Principal activities

Flexi's principal activities are investment holding and provision of management services.

Details of the combining entities of Flexi are as follows:

| Name of company | Effective ownership | Principal activities | Date of incorporation | Country of incorporation |
|---|---|---|---|---|
| Flexidynamic Engineering Sdn Bhd | 100% | Design, engineering, installation and commissioning of glove chlorination systems, as well as design and for the installation of storage tanks and process tanks for glove manufacturing industry. | 1 November 2012 | Malaysia |

## 1. GENERAL INFORMATION (CONT'D)

### 1.3 Principal activities (cont'd)

Details of the combining entities of Flexi are as follows (cont'd) :

| Name of company | Effective ownership | Principal activities | Date of incorporation | Country of incorporation |
|---|---|---|---|---|
| Flexidynamic Engineering Company Limited | 49% | Installation and maintenance of glove chlorination systems, storage tanks and process tanks for the glove manufacturing industry | 10 July 2015 | Thailand |

There was no significant change in the nature of the principal activities of Flexi and its combining entities since the day of incorporation.

### 1.4 Acquisition

<u>Acquisition of Flexidynamic Engineering Company Limited</u>

On 17 November 2018, Flexidynamic Engineering Sdn Bhd ("FESB") acquired 49% equity interest in Flexidynamic Engineering Company Limited ("FECL") comprising 9,800 ordinary shares for a total cash consideration of USD46,324.50 which equivalents to RM190,161.

Subsequent to the acquisition, FESB had on 22 February 2019, subscribed additional 9,800 newly issued ordinary shares in FECL for a total cash consideration of THB980,000 which equivalents to RM139,846. The additional subscription has no significant effect on the financial position and results of FESB.

Under Thailand's rules and regulations, foreign individual investors cannot hold more than 50%.

Although FESB owns less than half of the ownership interest and less than half of the voting power of FECL, but the Directors have determined that FESB controls the entity. FESB has power to exercise control through a casting vote given to the Managing Director of the Company who is also the Chairman of the Board of Directors of the subsidiary.

## 1. GENERAL INFORMATION (CONT'D)

### 1.4 Acquisition (cont'd)

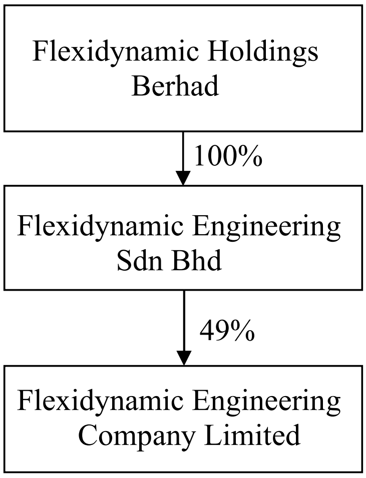
<u>Flexi Group</u>

The Flexi Group will be formed pursuant to the completion of acquisition of Flexidynamic Engineering Sdn Bhd by Flexi prior to the listing and quotation on the ACE Market of Bursa Malaysia Securities Berhad.

Flexi will acquire the entire issued share capital of Flexidynamic Engineering Sdn Bhd comprising 500,000 ordinary shares ("Acquisition'').

The aggregate purchase consideration for the above Acquisition is RM20,866,000 to be satisfied by the issuance of 208,660,000 new ordinary shares at its indicative value of RM0.10 per share.

Following the completion of the Acquisition, the expected group structure of Flexi Group is as follows:-




The Group is regarded as a continuing entity resulting from the Acquisition since the management of all the entities which took major part in the Acquisition which were controlled by the Directors and substantially under same major shareholders before and immediately after the Acquisition. Consequently, immediately after the Acquisition, there was a continuation of the control over entities' financial and operating policy decisions and risks and benefits to the ultimate shareholders that existed prior to the Acquisition. The Acquisition has been accounted for as an acquisition under common control in a manner similar to pooling of interests. Accordingly, the combined financial statements for the financial periods/years ended 30 September 2020, 31 December 2019, 31 December 2018, 31 December 2017 have been prepared comprise the financial statements of the combining entities which were under common control of the ultimate shareholders that existed prior to the Acquisition during the relevant periods or since their respective dates of incorporation.

No financial statements of Flexidynamic Holdings Berhad was included for the financial years ended 31 December 2018 and 31 December 2017 as Flexidynamic Holdings Berhad was only incorporated on 28 March 2019.

## 2. RELEVANT FINANCIAL PERIODS/YEARS

The combined financial statements of Flexi Group reflect the financial information of Flexidynamic Holdings Berhad, Flexidynamic Engineering Sdn Bhd and Flexidynamic Engineering Company Limited.

The relevant financial periods/years of the audited financial statements presented for the purpose of this report ("Relevant Financial Periods/Years") and the Auditors of the respective companies within the Group are as follows:-

| Company | Relevant Financial Periods/Years | Auditors |
|---|---|---|
| Flexidynamic Holdings Berhad | FYE 31 December 2019<br>FPE 30 September 2020 | Grant Thornton Malaysia PLT |
| Flexidynamic Engineering Sdn Bhd | FYE 31 December 2017<br>FYE 31 December 2018<br>FYE 31 December 2019<br>FPE 30 September 2020 | Grant Thornton Malaysia PLT |
| Flexidynamic Engineering Company Limited | FYE 31 December 2017<br>FYE 31 December 2018<br>FYE 31 December 2019<br>FPE 30 September 2020 | Grant Thornton Limited |

The audited financial statements of Flexidynamic Holdings Berhad, Flexidynamic Engineering Sdn Bhd and Flexidynamic Engineering Company Limited for the Relevant Financial Periods/Years reported above were not subject to any qualification or modification.

## 3. BASIS OF PREPARATION

### 3.1 Statement of compliance

The combined financial statements have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs") based on the Guidance Note on 'Combined Financial Statements' issued by the Malaysian Institute of Accountants in relation to the Listing.

The combined financial statements consist of the financial statements of the combining entities ("the Group") as disclosed in Note 2 to this report, which were under common control throughout the reporting periods/years by virtue of common controlling shareholders.

The combined financial statements have been prepared using financial information obtained from the records of the combining entities during the reporting periods/years.

The financial information as presented in the combined financial statements do not correspond to the consolidated financial statements of the Group, as the combined financial statements reflect business combinations under common control for the purpose of the Listing. Consequently, the financial information from the combined financial statements do not purport to predict the financial positions, results of operations and cash flows of the combining entities during the reporting periods/years.

3. **BASIS OF PREPARATION (CONT'D)**

3.2 **Basis of measurement**

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is 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 and its measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured on the assumptions that market participants would act in their economic best interest when pricing the asset or liability assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset 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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to their fair value measurement as a whole:-

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable.
Level 3 - Valuation techniques for which the lowest level input that is significant to their fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to their fair value measurement as a whole) at the end of each reporting periods/years.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy as explained above.

## 3. BASIS OF PREPARATION (CONT'D)

### 3.3 Functional and presentation currency

The combined financial statements are presented in Ringgit Malaysia ("RM"), which is the Group's functional currency and all values are rounded to the nearest RM except when otherwise stated.

### 3.4 Adoption of new standards/amendments/improvements to MFRSs

The Group has consistently applied the accounting policies set out in Note 4 to all periods presented in these combined financial statements.

At the beginning of the current financial periods/years, the combining entities adopted new standards/amendments/improvements to MFRSs which have been applied using the full retrospective approach.

Initial application of the new standards/amendments/improvements to MFRSs did not have material impact on the combined financial statements of the Group.

### 3.5 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but now yet effective, up to the date of issuance of the Group's combined financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

*Amendments effective for financial year beginning on or after 1 January 2020*

| | |
|---|---|
| Amendment to MFRS 3 | Definition of a Business |
| Amendment to MFRS 7, MFRS 9 And MFRS 139 | Interest Rate Benchmark Reform |
| Amendment to MFRS 101 and MFRS 108 | Definition of Material |
| Conceptual Framework | Amendments to References to the Conceptual Framework in MFRS Standards |

*MFRS effective for financial year beginning on or after 1 January 2021*

| | |
|---|---|
| MFRS 17* | Insurance Contracts |

*MFRS effective for financial year beginning on or after 1 January 2022*

| | |
|---|---|
| MFRS 3 | Business Combinations- Reference to the Conceptual Frame work |
| MFRS 101 | Presentation of Financial Statement - Classification of Liabilities as Current or Non-current |
| MFRS 116 | Property, Plant and Equipment - Proceeds before Intended Use |
| MFRS 137 | Provision, Contingent Liabilities and Contingent Assets - Onerous Contract - Cost of Fullfilling a Contract |

## 3. BASIS OF PREPARATION (CONT'D)

### 3.5 Standards issued but not yet effective (cont'd)

*Amendments effective for a date yet to be confirmed*

| | |
|---|---|
| Amendment to MFRS 10 and MFRS128* | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |

*Not applicable to the Group's operation

The initial application of the above standards, amendments and interpretations are not expected to have any financial impact to the financial statements.

### 3.6 Significant accounting estimates and judgements

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 judgements, estimates and assumptions made by the management, and will seldom equal the estimated results.

#### 3.6.1 Estimation uncertainty

Information about significant judgements, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are discussed below:-

Useful lives of depreciable assets

Management estimates the useful lives of the property, plant and equipment to be within 5 to 50 years and reviews the useful lives of depreciable assets at end of each reporting period. At end of the reporting period, management assesses that the useful lives represent the expected utility of the assets to the Group. Actual results, however, may vary due to change in the expected level of usage and technological developments, which resulting the adjustment to the Group's assets.

The carrying amount of the Group's property, plant and equipment at the end of the reporting date is disclosed in Note 5 to the combined financial statements.

Inventories

Inventories are measured at the lower of cost and net realisable value. In estimating net realisable values, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is subject to economical factor which may cause selling prices to change rapidly, and the Group's profit to change.

The carrying amount of the Group's inventories at the end of the reporting date is disclosed in Note 9 to the combined financial statements.

## 3. BASIS OF PREPARATION (CONT'D)

### 3.6 Significant accounting estimates and judgements (cont'd)

#### 3.6.1 Estimation uncertainty (cont'd)

Allowance for expected credit losses of trade receivables

The Group uses a provision matrix to calculate Expected Credit Loss ("ECL") for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECL on the Group's trade receivables is disclosed in Note 33.2(a) to the combined financial statements.

Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which all the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The carrying amount of the Group's deferred tax assets at the end of the reporting date is disclosed in Note 7 to the combined financial statements.

3. **BASIS OF PREPARATION (CONT'D)**

3.6 **Significant accounting estimates and judgements (cont'd)**

3.6.2 **Significant management judgement**

The following are significant management judgement in applying the accounting policies of the Group that has the most significant effect on the combined financial statements.

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:-

The Group provides the design, engineering, installation and commissioning services that are either sold separately or bundled together with sale of products to customers.

- Identifying performance obligations in the design, engineering, installation and commissioning services and bundled sale of products.

  The services are a promise to transfer services in the future and are part of the negotiated exchange between the Group with the customers.

The Group determined that both the sale of products and services are capable of being distinct. The fact that the Group regularly sell both products and services on a stand-alone basis indicate that the customer can benefit from both product and services on their own. The Group also determined that the promises to transfer the product and to provide services are distinct within the context of the contract. The product and services are not inputs to a combined item in the contract. The Group is not providing a significant integration service because the presence of the products and services together in this contract do not result in any additional or combined functionality and neither the product nor the services modify or customise the other.

In addition, the products and services are not highly interdependent or highly interrelated, because the Group would be able to transfer the products even if the customer declined services and would be able to provide services in relation to products sold by other distributors. Consequently, the Group allocated a portion of the transaction price to the products and the services based on relative stand-alone selling prices.

4. **SIGNIFICANT ACCOUNTING POLICIES**

The Group applies the significant accounting policies, as summarised below, consistently throughout all years presented in the combined financial statements.

4.1 **Business combination**

4.1.1 **Basis of business combination**

The combined financial statements comprise the financial statements of Flexidynamic Engineering Sdn Bhd and Flexidynamic Engineering Company Limited. The financial statements are prepared for the same reporting date as Flexidynamic Holdings Berhad. Consistent accounting policies are applied to like transactions and events in similar circumstances.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.1 Business combination (cont'd)

#### 4.1.1 Basis of business combination (cont'd)

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

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

A business combination involving entities under common control is a business combination in which all the combining entities or business are ultimately controlled by same party or parties both before or after the business combination, and that control is not transitory. The acquisition of Flexidynamic Engineering Sdn Bhd resulted in a business involving common control entities since the management of all the entities which took part in the acquisition were controlled by common Directors and under common shareholders before and immediately after the acquisition, and accordingly the accounting treatment is outside the scope of MFRS 3. For such common control business combinations, the merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the consolidated financial statements. The merger method of accounting on a retrospective basis and restated its comparative as if the consolidation had taken place before the state of the earliest period presented in the financial statements.

Under the merger method of accounting, the results of subsidiary are presented as if the merger had been effected throughout the current year. The assets and liabilities combined are accounted for based on the carrying amounts from the perspective of the common control shareholders at the date of transfer. On consolidation, the cost of the merger is cancelled with the values of the shares received. Any resulting credit difference is classified as equity and regarded as a non-distributable reserve. Any resulting credit difference is classified as equity and regarded as a non-distributable reserve. Any resulting debit difference is adjusted against any suitable reserve. Any reserves which are attributable to share capital of the merged entities, to the extent that they have not been capitalised by a debit difference, are reclassified and presented as movement in other capital reserves.

#### 4.1.2 Subsidiaries

Subsidiaries are entities, including structured entities, controlled by the Group.

The financial statements of suibsidiaries are included in the combined financial statements from the date that control commences until the date that control ceases.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.1 Business combination (cont'd)

#### 4.1.3 Acquisition of non-controlling interest

The Group accounts for all changes in ownership interest in a subsidiary that do not result in a loss of control as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

#### 4.1.4 Loss of control

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

#### 4.1.5 Non-controlling interest

Non-controlling interest at the end of the reporting period, being the equity in a subsidiary not attributable directly or indirectly to the equity holders of the Group, are presented in the combined statements of financial position and statements of changes in equity within equity, separately from equity attributable to the owners of the Group. Non-controlling interest in the results of the Group is presented in the combined statements of profit or loss and other comprehensive income as an allocation of the profit or loss and the comprehensive income for the year between non-controlling interest and the owners of the Group.

Losses applicable to the non-controlling interest in a subsidiary are allocated to the non-controlling interest even if that results in a deficit balance.

#### 4.1.6 Elimination on combination

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

### 4.2 Property, plant and equipment

All property, plant and equipment, are measured at cost less accumulated depreciation and less any impairment losses. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.2 Property, plant and equipment (cont'd)

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. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is recognised on the straight-line method in order to write off the cost of each asset over its estimated useful life. Freehold land with an infinite life and building in progress are not depreciated. Other property, plant and equipment are depreciated based on the estimated useful lives of the assets as follows:-

| | |
|---|---|
| Computers | 20% |
| Electrical and fittings | 20% |
| Freehold building | 2% |
| Furniture and fittings | 10% |
| Machineries | 10% |
| Motor vehicles | 20% |
| Right of use assets – Motor vehicles | 20% |
| Mould | 10% |
| Office equipment | 20% |
| Renovations | 10-20% |
| Signboards | 10% |

The residual values, useful lives and depreciation method are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable, or at least annually to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items 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 in the financial periods/years in which the asset is derecognised.

### 4.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### 4.3.1 Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("OCI"), and fair value through profit or loss.

# 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

## 4.3 Financial instruments (cont'd)

### 4.3.1 Financial assets (cont'd)

Initial recognition and measurement (cont'd)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expired.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

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

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with MFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.3 Financial instruments (cont'd)

### 4.3.1 Financial assets (cont'd)

*Financial assets at amortised cost*

Financial assets at amortised cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost includes trade and most of other receivables, amount due from a Director, amount due from a shareholder, fixed deposits and cash and bank balances.

*Financial assets at fair value through profit or loss ("FVTPL")*

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

This category includes derivative instruments and listed equity investments which the Group has not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are recognised as other income in the statement of profit or loss when the right of payment has been established.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

The Group's equity instruments at fair value through profit or loss includes investments in quoted equity instruments included under non-current assets.

<u>Impairment</u>

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

4. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

4.3 **Financial instruments (cont'd)**

4.3.1 **Financial assets (cont'd)**

Impairment (cont'd)

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each end of the reporting period. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets.

Equity instruments

All equity investments are subsequent measured at fair value with gains and losses recognised in profit or loss except where the Group has elected to present the subsequent changes in fair value in other comprehensive income and accumulated in the fair value reserve at initial recognition.

The designation at fair value through other comprehensive income is not permitted if the equity investment is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise.

Dividend income from this category of financial assets is recognised in profit or loss when the Group's right to receive payment is established unless the dividends clearly represent a recovery of part of the cost of the equity investments.

4.3.2 **Financial liabilities**

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.3 Financial instruments (cont'd)

### 4.3.2 Financial liabilities (cont'd)

Initial recognition and measurement (cont'd)

The Group's financial liabilities include bank borrowings, trade and most of other payables and accruals.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortised cost

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

### 4.4 Offsetting of financial instruments

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.5 Impairment of assets

#### 4.5.1 Non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

### 4.6 Inventories

Inventory comprises raw materials and finished goods which is stated at the lower of cost and net realisable value.

Cost of raw material determined on a first-in-first-out basis.

Cost of finished goods include design cost, raw material, direct labour and an appropriate proportion of production overheads (based in normal operating capacity).

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.7 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and fixed deposits which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of the financial position, cash and cash equivalents restricted to be used to settle a liability of 12 months or more after the reporting date are classified as non-current assets.

### 4.8 Equity and distribution to owners

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Ordinary shares are equity instruments.

Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transactions cost.

Retained earnings include all current's profit and prior years' retained earnings.

Dividends are accounted for in shareholders' equity as an appropriation of retained earnings and recognised as a liability in the period in which they are declared.

### 4.9 Provisions

Provisions are recognised when there is a present legal or constructive obligation that can be estimated reliably, as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provision is discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 4.10 Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

4. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

4.10 **Leases (cont'd)**

4.10.1 **Group as a leasee**

The Group applies a single recognition exemption to its short -term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term lease and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

4.10.2 **Right-of-use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Motor vehicles 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Section 4.5.1 Impairment of non-financial assets.

4.10.3 **Lease liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.10 Leases (cont'd)

### 4.10.4 Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of premises (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to lease of office equipment that are considered to be low-value. Lease payments on short-term lease and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

### 4.11 Revenue from contracts with customers

The Group is in the business of engineering and fabrication works and to develop innovative solution design in glove chlorination systems, air pollution control system, chemical and corrosion control system, process piping system and fiberglass tank.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.6.2 to the Combined Financial Statements.

### 4.11.1 Sale of goods

Revenue from sale of goods is recognised at a point in time once control of the asset is transferred to the customers generally on delivery of products and customers' acceptance.

### 4.11.2 Rendering of service

Revenue is measured based on the consideration to which our Group expects to be entitled in exchange for transferring promised services to a customer, excluding amounts collected on behalf of third parties. Revenue is recognised when our Group satisfies a performance obligation by transferring a promised service. A performance obligation may be satisfied at a point in time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

### 4.11.3 Contract balances

4.11.3.1 <u>Contract assets</u>

Contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

# 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

## 4.11 Revenue from contracts with customers (cont'd)

### 4.11.3 Contract balances (cont'd)

4.11.3.2 Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of consideration is due).

4.11.3.3 Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from a customer. If a customer pays consideration before the Group transfers goods or services to the customers, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

### 4.11.4 Revenue from other sources

4.11.4.1 Interest income

Interest income is recognised as it accrued using the effective interest method in profit or loss.

4.11.4.2 Dividend income

Dividend income is recognised when the Group's right to receive payment is established, which is generally when shareholders approve the dividend.

## 4.12 Employee benefits

### 4.12.1 Short-term employee benefits

Wages, salaries, bonuses and social security contributions are recognised as expenses in the financial periods/years, in which the associated services are rendered by the 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 the absences are incurred.

### 4.12.2 Defined contribution plan

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into independent entities of funds and will have no legal or constructive obligation to pay further contribution if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial periods/years.

4. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

4.12 **Employee benefits (cont'd)**

4.12.2 **Defined contribution plan (cont'd)**

Such contributions are recognised as an expense in the profit or loss as incurred. As required by law, companies in Malaysia make such contributions to the Employee Provident Fund ("EPF").

4.13 **Tax expense**

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss.

4.13.1 **Current tax**

Current tax is the expected tax payable or receivable on the taxable profit or loss for the financial periods/years, using tax rates enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous years.

4.13.2 **Deferred tax**

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for the temporary differences arising from the initial recognition of goodwill, the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the end of the reporting period.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.13 Tax expense (cont'd)

#### 4.13.3 Goods and service tax

Goods and services tax ("GST") is a consumption tax based on value-added concept. GST is imposed on goods and services at every production and distribution stage in the supply chain including importation of goods and services, at the applicable tax rate. Input GST that the Group paid on purchases of business inputs can be deducted from output GST.

Revenues, expenses and assets are recognised net of the amount of GST except:-

- Where the GST incurred in a purchase of assets or services is not recoverable from the authority, in which case the GST is recognised as part of the cost of acquisition of the assets or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the combined statement of financial position.

The Malaysian Government has zero rated the GST effective from 1 June 2018. This mean the GST rate on the supplies of goods or services or on the importation of goods has been revived from 6% to 0%.

The GST was replaced with the Sales and Services Tax effective from 1 September 2018. The rate for sales tax is fixed at 5% or 10%, while the rate for services tax is fixed at 6%.

#### 4.13.4 Sales tax

Expenses and assets are recognised net of the amount of sales tax, except:-

- When the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expenses item, as applicable

- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the tax authority is included as part of receivables or payables in the statement of financial position.

### 4.14 Borrowing costs

All the borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.15 Foreign currency translation and balances

Transactions in foreign currencies are initially recorded at the functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

All differences are taken to the profit or loss with the exception of all monetary items that forms part of a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising in translation of non-monetary items is recognised in line with the gain or loss of the item that gave rise to the translation difference (translation differences on items whose gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss respectively).

### 4.16 Foreign operations

The assets and liabilities of operations denominated in functional currencies other than RM, including goodwill and fair value adjustments arising on acquisition, are translated to RM at exchange rates at the end of the reporting period, except for goodwill and fair value adjustments arising from business combination before 1 February 2011 (the date when the Group first adopted MFRSs) which are treated as assets and liabilities of the Group. The income and expenses of foreign operations are translated to RM at exchange rates at the date of the transactions.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interest. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the profit or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation, the relevant proportion of the cumulative amount is reattributed to non-controlling interest. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.16 Foreign operations (cont'd)

In the combined financial statements, when settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented in foreign currency translation reserve in equity.

### 4.17 Contingencies

Where it is not probable that an inflow or an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the asset or the obligation is not recognised in the combined statements of financial position and is disclosed as a contingent asset or contingent liability, unless the probability of inflow or 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 assets or contingent liabilities unless the probability of inflow or outflow of economic benefits is remote.

### 4.18 Related parties

A related party is a person or entity that is related to the Group. A related party transaction is a transfer of resources, services or obligations between the Group and its related party, regardless of whether a price is charged.

(i) A person or a close member of that person's family is related to the Group if that person:-

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the holding Group of the Group, or the Group.

(ii) An entity is related to the Group if any of the following conditions applies:-

- (i) the entity and the Group are members of the same Group.
- (ii) one entity is an associate or joint venture of the other entity.
- (iii) both entities are joint ventures of the same third party.
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) the entity is a post-employment benefit plan for the benefits of employees of either the Group or an entity related to the Group.
- (vi) the entity is controlled or jointly-controlled by a person identified in (i) above.
- (vii) a person identified in (i)(a) above has significant influence over the entity or is a member of the key management personnel of the (or of the parent of the entity); or
- (viii) the entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### 4.19 Segmental results

#### 4.19.1 Operating segment

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. All opening segments' operating results are reviewed regularly by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete Financial Information is available.

#### 4.19.2 Intersegment transfer

Segment revenues, expenses and result include transfers between segments. The prices charges on intersegment transactions are the same as those charged for similar goods to parties outside of the economic entity in negotiated term. These transfers are eliminated on combination.

### 4.20 Earnings per share

(i) Basic

Basic earnings per share for the year is calculated by dividing the profit for the financial periods/years attributable to common controlling shareholders by the weighted average number of ordinary shares in issue.

(ii) Diluted

Diluted earnings per share is calculated by dividing the profit for the financial periods/years attributable to common controlling shareholders by the weighted average number of ordinary shares in issue, adjusted for the dilutive effects of all potential ordinary shares to be issued. Diluted earnings per share is not applicable as the Group does not have potential dilutive equity instruments that would give a diluted effect to the basic earnings per share.

## 5. PROPERTY, PLANT AND EQUIPMENT

| | Computers RM | Electrical and fittings RM | Freehold building RM | Freehold land RM | Furniture and fittings RM | Machineries RM | Motor vehicles RM | Right of use assets - Motor vehicles RM | Mould RM | Office equipment RM | Renovations RM | Signboards RM | Building in progress RM | Total RM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Audited** | | | | | | | | | | | | | | |
| **Cost** | | | | | | | | | | | | | | |
| At 1 January 2017 | 47,587 | 18,430 | 3,995,331 | 2,386,821 | 5,740 | 333,093 | 794,067 | 495,429 | 20,800 | 63,883 | 564,349 | 10,205 | - | 8,735,735 |
| Additions | 7,716 | - | - | - | - | 2,800 | 4,887 | 255,241 | 14,430 | 25,736 | 35,300 | - | - | 346,110 |
| Disposals | - | - | - | - | - | - | (53,000) | - | - | - | - | - | - | (53,000) |
| Written off | - | - | - | - | - | - | - | - | - | (698) | - | - | - | (698) |
| Exchange differences | - | - | - | - | - | - | (485) | - | - | (106) | - | - | - | (591) |
| At 31 December 2017 | 55,303 | 18,430 | 3,995,331 | 2,386,821 | 5,740 | 335,893 | 745,469 | 750,670 | 35,230 | 88,815 | 599,649 | 10,205 | - | 9,027,556 |
| Additions | 33,687 | 146,251 | - | - | 131,792 | 512,394 | 2,276 | 227,635 | 65,100 | 266,043 | 641,560 | 15,989 | - | 2,042,727 |
| Disposals | - | - | - | - | - | (10,000) | - | (72,333) | - | - | - | - | - | (82,333) |
| Written off | (1,461) | - | - | - | - | (40,500) | - | - | - | (2,600) | (562,749) | (6,905) | - | (614,215) |
| Exchange differences | - | - | - | - | - | - | 1,246 | - | - | 169 | - | - | - | 1,415 |
| At 31 December 2018 | 87,529 | 164,681 | 3,995,331 | 2,386,821 | 137,532 | 797,787 | 748,991 | 905,972 | 100,330 | 352,427 | 678,460 | 19,289 | - | 10,375,150 |
| Additions | 13,430 | - | - | - | 11,927 | 98,390 | 27,000 | 572,878 | 9,070 | 56,338 | 90,956 | 1,900 | 3,442,919 | 4,324,808 |
| Disposals | (2,782) | - | - | - | - | (33,800) | - | (293,639) | - | - | - | - | - | (330,221) |
| Written off | - | - | - | - | - | - | - | - | - | (1,599) | - | - | - | (1,599) |
| Exchange differences | - | - | - | - | - | - | - | 9,141 | - | 1,427 | 1,720 | - | - | 12,288 |
| At 31 December 2019 | 98,177 | 164,681 | 3,995,331 | 2,386,821 | 149,459 | 862,377 | 775,991 | 1,194,352 | 109,400 | 408,593 | 771,136 | 21,189 | 3,442,919 | 14,380,426 |
| Additions | 177,258 | - | - | - | - | 47,040 | - | 571,574 | 24,700 | 4,614 | 5,994 | - | 2,607,478 | 3,438,658 |
| Written off | (453) | - | - | - | - | - | - | - | - | - | - | - | - | (453) |
| Exchange differences | - | - | - | - | - | - | - | (13,133) | - | (1,946) | (3,435) | - | - | (18,514) |
| At 30 September 2020 | 274,982 | 164,681 | 3,995,331 | 2,386,821 | 149,459 | 909,417 | 775,991 | 1,752,793 | 134,100 | 411,261 | 773,695 | 21,189 | 6,050,397 | 17,800,117 |

## 5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| | Computers RM | Electrical and fittings RM | Freehold building RM | Freehold land RM | Furniture and fittings RM | Machineries RM | Motor vehicles RM | Right of use assets – Motor vehicles RM | Mould RM | Office equipment RM | Renovations RM | Signboards RM | Building in Progress RM | Total RM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Audited** | | | | | | | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | | | | | | | |
| At 1 January 2017 | 17,724 | 11,999 | 6,659 | - | 662 | 71,267 | 509,929 | 173,368 | 4,502 | 15,575 | 117,897 | 2,461 | - | 932,043 |
| Charge for the financial year | 10,103 | 3,686 | 79,907 | - | 574 | 33,378 | 155,562 | 119,735 | 2,396 | 15,053 | 56,667 | 1,021 | - | 478,082 |
| Disposals | - | - | - | - | - | - | (44,800) | - | - | - | - | - | - | (44,800) |
| Written off | - | - | - | - | - | - | - | - | - | (593) | - | - | - | (593) |
| Exchange differences | - | - | - | - | - | - | (309) | - | - | (4) | - | - | - | (313) |
| At 31 December 2017 | 27,827 | 15,685 | 86,566 | - | 1,236 | 104,645 | 620,382 | 293,103 | 6,898 | 30,031 | 174,564 | 3,482 | - | 1,364,419 |
| Charge for the financial year | 13,695 | 12,566 | 79,907 | - | 7,032 | 57,438 | 34,409 | 226,113 | 5,942 | 43,494 | 73,335 | 1,402 | - | 555,333 |
| Disposals | - | - | - | - | - | (2,708) | - | (36,769) | - | - | - | - | - | (39,477) |
| Written off | (634) | - | - | - | - | (21,592) | - | - | - | (2,448) | (206,572) | (2,736) | - | (233,982) |
| Exchange differences | - | - | - | - | - | - | 654 | - | - | 30 | - | - | - | 684 |
| At 31 December 2018 | 40,888 | 28,251 | 166,473 | - | 8,268 | 137,783 | 655,445 | 482,447 | 12,840 | 71,107 | 41,327 | 2,148 | - | 1,646,977 |
| Charge for the financial year | 16,117 | 29,530 | 79,905 | - | 14,743 | 82,677 | 19,049 | 223,910 | 10,670 | 75,202 | 79,353 | 1,966 | - | 633,122 |
| Disposals | (487) | - | - | - | - | (10,985) | - | (293,639) | - | - | - | - | - | (305,111) |
| Written off | - | - | - | - | - | - | - | - | - | (347) | - | - | - | (347) |
| Exchange differences | - | - | - | - | - | - | 1,171 | 2,148 | - | 282 | 240 | - | - | 3,841 |
| At 31 December 2019 | 56,518 | 57,781 | 246,378 | - | 23,011 | 209,475 | 675,665 | 414,866 | 23,510 | 146,244 | 120,920 | 4,114 | - | 1,978,482 |
| Charge for the financial period | 21,933 | 22,136 | 59,931 | - | 11,209 | 66,965 | 12,161 | 223,934 | 8,764 | 60,084 | 63,961 | 1,589 | - | 552,667 |
| Written off | (244) | - | - | - | - | - | - | - | - | - | - | - | - | (244) |
| Exchange differences | - | - | - | - | - | - | (606) | (3,171) | - | (490) | (713) | - | - | (4,980) |
| At 30 September 2020 | 78,207 | 79,917 | 306,309 | - | 34,220 | 276,440 | 687,220 | 635,629 | 32,274 | 205,838 | 184,168 | 5,703 | - | 2,525,925 |
| **Net carrying amounts** | | | | | | | | | | | | | | |
| At 30 September 2020 | 196,775 | 84,764 | 3,689,022 | 2,386,821 | 115,239 | 632,977 | 88,771 | 1,117,164 | 101,826 | 205,423 | 589,527 | 15,486 | 6,050,397 | 15,274,192 |
| At 31 December 2019 | 41,659 | 106,900 | 3,748,953 | 2,386,821 | 126,448 | 652,902 | 100,326 | 779,486 | 85,890 | 262,349 | 650,216 | 17,075 | 3,442,919 | 12,401,944 |
| At 31 December 2018 | 46,641 | 136,430 | 3,828,858 | 2,386,821 | 129,264 | 660,004 | 93,546 | 423,525 | 87,490 | 281,320 | 637,133 | 17,141 | - | 8,728,173 |
| At 31 December 2017 | 27,476 | 2,745 | 3,908,765 | 2,386,821 | 4,504 | 231,248 | 125,087 | 457,567 | 28,332 | 58,784 | 425,085 | 6,723 | - | 7,663,137 |

## 5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| | Computers RM | Electrical and fittings RM | Freehold building RM | Freehold land RM | Furniture and fittings RM | Machineries RM | Motor vehicles RM | Right of use assets – Motor vehicles RM | Mould RM | Office equipment RM | Renovations RM | Signboards RM | Building in Progress RM | Total RM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Unaudited** | | | | | | | | | | | | | | |
| **Cost** | | | | | | | | | | | | | | |
| At 1 January 2019 | 87,529 | 164,681 | 3,995,331 | 2,386,821 | 137,532 | 797,787 | 748,991 | 905,972 | 100,330 | 352,427 | 678,460 | 19,289 | - | 10,375,150 |
| Additions | 10,675 | - | - | - | 10,641 | 91,790 | 27,000 | 570,818 | 9,070 | 38,744 | 81,836 | 300 | 246,224 | 1,087,098 |
| Disposals | (2,782) | - | - | - | - | (33,800) | (293,639) | - | - | - | - | - | - | (330,221) |
| Written off | - | - | - | - | - | - | - | - | - | (1,599) | - | - | - | (1,599) |
| Exchange differences | - | - | - | - | - | - | - | 11,564 | - | 1,766 | 2,580 | - | - | 15,910 |
| At 30 September 2019 | 95,422 | 164,681 | 3,995,331 | 2,386,821 | 148,173 | 855,777 | 482,352 | 1,488,354 | 109,400 | 391,338 | 762,876 | 19,589 | 246,224 | 11,146,338 |
| **Accumulated depreciation** | | | | | | | | | | | | | | |
| At 1 January 2019 | 40,888 | 28,251 | 166,473 | - | 8,268 | 137,783 | 655,445 | 482,447 | 12,840 | 71,107 | 41,327 | 2,148 | - | 1,646,977 |
| Charge for the financial period | 11,975 | 22,148 | 59,930 | - | 11,027 | 61,254 | 7,562 | 163,830 | 7,934 | 55,574 | 58,155 | 1,468 | - | 460,857 |
| Disposals | (487) | - | - | - | - | (10,985) | (293,639) | - | - | - | - | - | - | (305,111) |
| Written off | - | - | - | - | - | - | - | - | - | (346) | - | - | - | (346) |
| Exchange differences | - | - | - | - | - | - | 3,277 | - | - | 285 | 231 | - | - | 3,793 |
| At 30 September 2019 | 52,376 | 50,399 | 226,403 | - | 19,295 | 188,052 | 372,645 | 646,277 | 20,774 | 126,620 | 99,713 | 3,616 | - | 1,806,170 |
| **Net carrying amounts** | | | | | | | | | | | | | | |
| At 30 September 2019 | 43,046 | 114,282 | 3,768,928 | 2,386,821 | 128,878 | 667,725 | 109,707 | 842,077 | 88,626 | 264,718 | 663,163 | 15,973 | 246,224 | 9,340,168 |

## 5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The motor vehicles of the Group with net carrying amount of 30.9.2020: RM1,117,164 (30.9.2019: RM842,077; 31.12.2019: RM779,486; 31.12.2018: RM423,525 and 31.12.2017: RM457,567) were acquired under finance lease arrangements.

The freehold land and building of the Group with net carrying amount of 30.9.2020: RM2,386,821 (30.9.2019: RM2,386,821; 31.12.2019: RM2,386,821; 31.12.2018: RM2,386,821 and 31.12.2017: RM2,386,821) and 30.9.2020: RM3,689,022 (30.9.2019: RM3,768,928; 31.12.2019: RM3,748,953; 2018: RM3,828,858 and 2017: RM3,908,765) respectively have been pledged to bank as security for the banking facilities granted to the Group as referred to Note 17 to the financial statements.

## 6. INVESTMENTS IN EQUITY INSTRUMENTS

| | **Audited** | **Unaudited** | ← | **Audited** | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| At beginning of the financial periods/years | 2,822,778 | 2,659,728 | 2,659,728 | 2,292,360 | 1,675,707 |
| Additions from purchases | - | 1,612,647 | 1,612,647 | 453,074 | 63,749 |
| Fair value gain/(loss) for the financial periods/years | - | (318,808) | (534,424) | 242,794 | 552,904 |
| Disposals | (2,822,778) | (915,173) | (915,173) | (328,500) | - |
| At end of the financial periods/years | - | 3,038,394 | 2,822,778 | 2,659,728 | 2,292,360 |
| **The equity instruments comprise:-** | | | | | |
| Investment measured at fair value | | | | | |
| - Ordinary shares quoted in Malaysia | - | - | - | 275,072 | 506,232 |
| - Ordinary shares quoted in Singapore | - | 3,003,170 | 2,787,554 | 2,349,432 | 1,750,904 |
| - Ordinary shares quoted in Austria | - | 35,224 | 35,224 | 35,224 | 35,224 |
| | - | 3,038,394 | 2,822,778 | 2,659,728 | 2,292,360 |

## 7. DEFERRED TAX (ASSETS)/LIABILITIES

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| At beginning of the financial periods/years | (122,109) | (699,834) | (699,834) | 10,073 | 32,294 |
| Recognised in profit or loss (Note 25) | (2,765,874) | 842,071 | 577,725 | (579,238) | (22,221) |
| Over provision in prior periods/years (Note 25) | (566) | - | - | (130,669) | - |
| At end of financial periods/years | (2,888,549) | 142,237 | (122,109) | (699,834) | 10,073 |

The components of recognised deferred tax (assets)/liabilities as at the end of the reporting date are made up of the temporary differences arising from:-

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Carrying amount of qualifying property, plant and equipment in excess of their tax base | 199,442 | 125,793 | 146,768 | 102,059 | 11,663 |
| Unrealised gain/(loss) on foreign exchange | 32,469 | 22,289 | 31,482 | 14,218 | (1,590) |
| Impairment of financial asset | - | (66,821) | (134,211) | - | - |
| Deferred income | (3,120,460) | 60,976 | (166,148) | (816,111) | - |
| | (2,888,549) | 142,237 | (122,109) | (699,834) | 10,073 |

## 8. OTHER RECEIVABLES

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| **Non-current:-** | | | | | |
| Non-trade receivables | 189,528 | 339,036 | 291,231 | 401,967 | - |
| **Current:-** | | | | | |
| Non-trade receivables | 177,403 | 149,629 | 197,422 | 210,666 | 43,592 |
| Accrued income | 4,753 | 2,174 | 4,957 | 2,014 | 58,783 |
| Deposits | 86,965 | 81,210 | 102,388 | 77,689 | 102,116 |
| Prepayments | 108,432 | 236,035 | 67,628 | 257,260 | 139,398 |
| Deferred expenses | 1,441,560 | 1,437,844 | 859,459 | 312,005 | - |
| GST/VAT receivable, net | 45 | 92,613 | 79,069 | 181,625 | 15,251 |
| | 1,819,158 | 1,999,505 | 1,310,923 | 1,041,259 | 359,140 |
| Total | 2,008,686 | 2,338,541 | 1,602,154 | 1,443,226 | 359,140 |

## 9. INVENTORIES

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| **At cost:-** | | | | | |
| Finished goods | 2,373,665 | 1,317,404 | 2,348,522 | 717,648 | 700,823 |
| Raw materials | 2,432,963 | 2,133,229 | 1,846,990 | 2,100,010 | 960,602 |
| | 4,806,628 | 3,450,633 | 4,195,512 | 2,817,658 | 1,661,425 |
| **Recognised in profit or loss** | | | | | |
| Inventories recognised at cost of sales | 25,094,697 | 23,645,302 | 31,696,931 | 31,364,251 | 17,969,369 |

## 10. TRADE RECEIVABLES

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Trade receivables | 22,906,700 | 8,753,521 | 12,315,852 | 14,465,297 | 7,375,082 |
| Less: | | | | | |
| Allowance for expected credit losses | - | - | (559,212) | - | - |
| | 22,906,700 | 8,753,521 | 11,756,640 | 14,465,297 | 7,375,082 |

The movement of expected credit losses during the financial periods/years is as follows:

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020= | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| At 1 January | 559,212 | - | - | - | - |
| (Reversal)/Allowance for expected credit losses | (559,212) | - | 559,212 | - | - |
| At 31 December | - | - | 559,212 | - | - |

The normal trade credit term granted by the Group to the trade receivables ranging from 30 to 90 days (30.9.2019: 30 to 90; 31.12.2019: 30 to 90; 31.12.2018: 30 to 90 and 31.12.2017: 30 to 90) days. Other credit terms are assessed and approved by the management on a case-by-case basis.

## 11. AMOUNT DUE FROM A DIRECTOR

Amount due from a Director arising from non-trade transaction is unsecured, with interest rate of 2% per annum and repayable on demand.

## 12. AMOUNT DUE FROM A SHAREHOLDER

Amount due from a shareholder arising from non-trade transaction is unsecured, with interest rate of 2% per annum and repayable on demand. The outstanding amount has been fully settled on 29 April 2019.

## 13. FIXED DEPOSITS WITH A LICENSED FINANCIAL INSTITUTION

The fixed deposits with a licensed financial institution of the Group during the financial periods/years bore effective interest rates at 2.10% (30.9.2019: 2.95% to 3.20%; 31.12.2019: 2.95% to 3.20%; 31.12.2018: 3.20% and 31.12.2017: 2.95%) per annum.

The fixed deposits with a licensed financial institution of the Group at the end of the reporting periods/years amounted RMNil (30.9.2019: RM1,187,363; 31.12.2019: RMNil; 2018: RM1,160,193 and 2017: RM1,123,785) which has been pledged to a financial institution as security for banking facilities granted to the Group and the Company as disclosed in Note 17 to the financial statements.

## 14. SHARE CAPITAL

| | Flexidynamic Holdings Berhad Unit | Flexidynamic Engineering Sdn Bhd Unit | Flexidynamic Engineering Company Limited Unit | Total Unit |
|---|---|---|---|---|
| Issued and fully paid up with no par value:- | | | | |
| Number of ordinary shares:- | | | | |
| At 31 December 2017 | - | 500,000 | 1,225 | 501,225 |
| Issuance of ordinary shares | - | - | 8,575 | 8,575 |
| At 31 December 2018 | - | 500,000 | 9,800 | 509,800 |
| At date of incorporation | 200 | - | - | 200 |
| Issuance of ordinary shares | - | - | 9,800 | 9,800 |
| At 30 September 2019/At 31 December 2019/30 September 2020 | 200 | 500,000 | 19,600 | 519,800 |

The holders of ordinary shares are entitled to receive dividends as and when declared by the Group. All ordinary shares carry one vote per share without restrictions and rank equally with regard to the Group's residual assets.

| | Flexidynamic Holdings Berhad RM | Flexidynamic Engineering Sdn Bhd RM | Flexidynamic Engineering Company Limited RM | Total RM |
|---|---|---|---|---|
| Issued and fully paid up with no par value:- | | | | |
| Number of ordinary shares:- | | | | |
| At 31 December 2017 | - | 500,000 | 14,610 | 514,610 |
| Issuance of ordinary shares | - | - | 102,269 | 102,269 |
| At 31 December 2018 | - | 500,000 | 116,879 | 616,879 |
| At date of incorporation | 20 | - | - | 20 |
| Issuance of ordinary shares | - | - | 116,879 | 116,879 |
| At 30 September 2019/At 31 December 2019/30 September 2020 | 20 | 500,000 | 233,758 | 733,778 |

## 15. CAPITAL RESERVE

Capital reserve represents employees benefit through transfer of the Group share to the employees.

## 16. NON-CONTROLLING INTEREST

The Group's combining entities that has material non-controlling interest is as follows:-

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| **Flexidynamic Engineering Company Limited** | | | | | |
| **NCI percentage of ownership interest and voting interest (%)** | 51 | 51 | 51 | 51 | 51 |
| Carrying amount of non-controlling interest (RM) | 237,923 | 325,330 | 288,059 | 367,623 | 121,254 |
| (Loss)/Profit allocated to non-controlling interest (RM) | (39,061) | 25,493 | (10,350) | 128,326 | 26,561 |
| Total comprehensive income allocated to non-controlling interest (RM) | (50,136) | 66,184 | 31,099 | 139,926 | 25,392 |

The summary of financial information before intra-group elimination for the Group's subsidiaries that has material non-controlling interest ("NCI") is as below:-

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| **Flexidynamic Engineering Company Limited** | | | | | |
| **Financial position as at periods/years end** | | | | | |
| Non-current assets | 323,180 | 341,223 | 321,509 | 30,711 | 39,628 |
| Current assets | 354,875 | 553,099 | 459,759 | 793,325 | 209,373 |
| Non-current liabilities | (104,004) | (125,403) | (97,998) | - | - |
| Current liabilities | (107,535) | (131,017) | (118,448) | (103,206) | (11,249) |
| Net assets | 466,516 | 637,902 | 564,822 | 720,830 | 237,752 |

## 16. NON-CONTROLLING INTEREST (CONT'D)

| | Audited 30.9.2020 RM | Unaudited 30.9.2019 RM | Audited 31.12.2019 RM | Audited 31.12.2018 RM | Audited 31.12.2017 RM |
|---|---|---|---|---|---|
| **Flexidynamic Engineering Company Limited** | | | | | |
| **Summary of financial performance for the financial periods/years** | | | | | |
| (Loss)/Profit for the financial periods/years | (76,590) | 49,986 | (20,294) | 251,620 | 52,081 |
| Other comprehensive (loss)/income | (21,716) | 79,786 | 81,272 | 22,746 | (2,292) |
| Total comprehensive (loss)/income | (98,306) | 129,772 | 60,978 | 274,366 | 49,789 |
| Included in the total comprehensive income is: | | | | | |
| Revenue | 690,184 | 1,007,562 | 1,338,647 | 990,405 | 534,863 |
| **Summary of cash flow for the financial periods/years** | | | | | |
| Net cash (outflow)/inflow from | | | | | |
| - operating activities | (107,847) | 54,026 | (98,611) | 410,024 | 43,317 |
| - investing activities | (24,335) | 515,311 | 263,357 | (1,166) | (5,459) |
| - financing activities | (28,583) | (199,341) | (209,400) | (189,902) | (31,654) |
| Net cash flow | (160,765) | 369,996 | (44,654) | 218,956 | 6,204 |
| **Other information** | | | | | |
| Dividends paid to non-controlling interest | - | 230,126 | 232,312 | - | 16,143 |

## 17. BANK BORROWINGS

| | Audited 30.9.2020 RM | Unaudited 30.9.2019 RM | Audited 31.12.2019 RM | Audited 31.12.2018 RM | Audited 31.12.2017 RM |
|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | |
| **Secured:-** | | | | | |
| Term loan | | | | | |
| - more than 1 year but less than 2 years | 264,608 | 220,166 | 222,440 | 195,945 | 180,671 |
| - more than 2 years but less than 5 years | 845,693 | 717,730 | 725,200 | 641,087 | 590,650 |
| - more than 5 years | 7,512,342 | 3,006,351 | 5,228,925 | 3,386,688 | 3,765,664 |
| | 8,622,643 | 3,944,247 | 6,176,565 | 4,223,720 | 4,536,985 |
| **Current liabilities** | | | | | |
| **Secured:-** | | | | | |
| Term loan | 256,423 | 220,233 | 203,926 | 187,752 | 174,166 |
| Bankers' acceptance | 874,000 | 720,000 | 689,000 | 542,000 | - |
| | 1,130,423 | 940,233 | 892,926 | 729,752 | 174,166 |
| **Total bank borrowings** | 9,753,066 | 4,884,480 | 7,069,491 | 4,953,472 | 4,711,151 |

The term loan of the Group is secured by a legal charge over the Group's freehold land and building and guaranteed by the Group's Directors.

The bankers' acceptance of the Group is secured by a legal charge over the Group's freehold land and building and guaranteed by the Group's Directors.

The effective interest rates of the term loan and bankers' acceptance are 30.9.2020: 3.27% (30.9.2019: 4.52%; 31.12.2019: 4.52%; 31.12.2018: 4.77% and 31.12.2017: 4.65%) and 30.9.2020: 2.59% to 3.63% (30.9.2019: 3.84 to 4.09%; 31.12.2019: 3.84% to 4.09%; 31.12.2018: 4.06% to 4.09% and 31.12.2017: Nil) respectively per annum.

## 18. LEASE LIABILITIES

| | Audited 30.9.2020 RM | Unaudited 30.9.2019 RM | Audited 31.12.2019 RM | Audited 31.12.2018 RM | Audited 31.12.2017 RM |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| - less than 1 year | 287,270 | 229,874 | 218,496 | 144,279 | 167,951 |
| **Non-current liabilities** | | | | | |
| - more than 1 year but less than 2 years | 321,149 | 186,663 | 185,769 | 126,784 | 120,367 |
| - more than 2 years but less than 5 years | 430,029 | 371,835 | 308,478 | 186,830 | 174,379 |
| | 751,178 | 558,498 | 494,247 | 313,614 | 294,746 |
| | 1,038,448 | 788,372 | 712,743 | 457,893 | 462,697 |

The effective interest rates are ranging from 30.9.2020: 2.87% to 6.38% (30.9.2019: 2.87% to 6.38%; 31.12.2019: 2.87% to 6.38%; 31.12.2018: 4.63% to 6.64% and 31.12.2017: 4.55% to 6.64%) per annum.

## 18. LEASE LIABILITIES (CONT'D)

Set out below is the movements of the lease liabilities during the financial periods/years:-

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| At 1 January | 712,743 | 457,893 | 457,893 | 462,697 | 433,395 |
| Additions | 428,738 | 442,040 | 443,504 | 204,500 | 198,000 |
| Accretion of interest | 16,327 | 19,314 | 28,644 | 22,686 | 22,441 |
| Payment of principal and interests | (119,360) | (130,875) | (217,298) | (231,990) | (191,139) |
| At 30 September/31 December | 1,038,448 | 788,372 | 712,743 | 457,893 | 462,697 |

The following are the amounts relating to lease liability recognised in profit or loss:-

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Interest expense on lease liabilities | 16,327 | 19,314 | 28,644 | 22,686 | 22,441 |

## 19. TRADE PAYABLES

The normal credit term granted by the trade payables ranging from 30.9.2020: 30 to 120 days (30.9.2019: 30 to 120 days; 31.12.2019: 30 to 120 days; 31.12.2018: 30 to 120 days and 31.12.2017: 30 to 120 days).

## 20. OTHER PAYABLES AND ACCRUALS

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Non-trade payables | 101,733 | 21,817 | 4,518 | 126,829 | 49,939 |
| Accruals | 136,291 | 366,458 | 358,912 | 1,026,339 | 842,754 |
| Dividend payable | - | - | - | - | 400,000 |
| Withholding tax | 266 | 27,345 | 724 | 370 | 5,373 |
| Sales tax | 47,671 | 1,869 | 21,471 | 20,948 | 2,709 |
| | 285,961 | 417,489 | 385,625 | 1,174,486 | 1,300,775 |

## 21. CONTRACT LIABILITIES

| | Audited 30.9.2020 RM | Unaudited 30.9.2019 RM | Audited 31.12.2019 RM | 31.12.2018 RM | 31.12.2017 RM |
|---|---|---|---|---|---|
| Customer deposits | 13,001,915 | 24,140 | 692,284 | 3,400,461 | 761,868 |

### 21.1 Point transactions

| | Audited 30.9.2020 RM | Unaudited 30.9.2019 RM | Audited 31.12.2019 RM | 31.12.2018 RM | 31.12.2017 RM |
|---|---|---|---|---|---|
| At 1 January | 692,284 | 3,400,461 | 3,400,461 | 761,868 | 24,140 |
| Deferred during the periods/years | 15,955,045 | 1,859,625 | 2,914,714 | 3,376,321 | 837,721 |
| Recognised as revenue during the periods/years | (3,645,414) | (5,235,946) | (5,622,891) | (737,728) | (99,993) |
| At 30 September/31 December | 13,001,915 | 24,140 | 692,284 | 3,400,461 | 761,868 |
| Analysed as:- | | | | | |
| - Current | 13,001,915 | 24,140 | 692,284 | 3,400,461 | 761,868 |

## 22. REVENUE

### 22.1 Disaggregated revenue information

| | Audited 1.1.2020 to 30.9.2020 RM | Unaudited 1.1.2019 to 30.9.2019 RM | Audited 1.1.2019 to 31.12.2019 RM | 1.1.2018 to 31.12.2018 RM | 1.1.2017 to 31.12.2017 RM |
|---|---|---|---|---|---|
| Glove chlorination systems | 20,378,313 | 23,134,435 | 31,310,287 | 34,708,023 | 19,149,822 |
| Repair, refurbishment and maintenance | 1,547,289 | 1,605,011 | 1,978,201 | 3,727,970 | 3,691,293 |
| Trading of replacement parts | 2,430,952 | 2,150,051 | 2,658,395 | 3,300,027 | 3,244,556 |
| Storage and process tanks | 7,437,519 | 5,556,156 | 9,966,540 | 3,981,305 | 1,962,059 |
| Other products and services | 3,212,867 | 2,647,154 | 3,925,533 | 2,604,516 | 1,854,341 |
| | 35,006,940 | 35,092,807 | 49,838,956 | 48,321,841 | 29,902,071 |
| **Timing of revenue recognition** | | | | | |
| Goods and services transferred at a point in time | 35,006,940 | 35,092,807 | 49,838,956 | 48,321,841 | 29,902,071 |

## 22. REVENUE (CONT'D)

### 22.2 Contract balances

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Contract liabilities (Note 21) | 13,001,915 | 24,140 | 692,284 | 3,400,461 | 761,868 |

Contract liabilities include downpayment made by the customers for the initiation of the projects. The contract liabilities was mainly due to the customer deposits received which is disclosed in Note 21 to the financial statements.

## 23. FINANCE COSTS AND FINANCE INCOME

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 1.1.2020 to 30.9.2020 | 1.1.2019 to 30.9.2019 | 1.1.2019 to 31.12.2019 | 1.1.2018 to 31.12.2018 | 1.1.2017 to 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Finance costs:- | | | | | |
| -Term loan interest | 28,132 | 41,299 | 63,053 | 74,937 | 64,276 |
| -Bankers' acceptance interest | 16,036 | 31,541 | 35,046 | 17,788 | 3,439 |
| -Finance lease | 16,327 | 19,314 | 28,644 | 22,686 | 22,441 |
| -Others | 384 | - | - | 42,011 | - |
| | 60,879 | 92,154 | 126,743 | 157,422 | 90,156 |
| Finance income:- | | | | | |
| -Fixed deposit with a licensed financial institution | 15,836 | 27,170 | 30,050 | 36,407 | 32,202 |
| -Current account | 2,843 | 11,748 | 16,875 | 5,963 | 1,444 |
| -Others | - | - | 12,924 | - | - |
| | 18,679 | 38,918 | 59,849 | 42,370 | 33,646 |

## 24. PROFIT BEFORE TAX

Profit before tax has been determined after charging, amongst other items, the following items:-

| | **Audited** 1.1.2020 to 30.9.2020 RM | **Unaudited** 1.1.2019 to 30.9.2019 RM | **Audited** 1.1.2019 to 31.12.2019 RM | **Audited** 1.1.2018 to 31.12.2018 RM | **Audited** 1.1.2017 to 31.12.2017 RM |
|---|---|---|---|---|---|
| Auditor's remuneration | | | | | |
| -Current periods/years | 107,172 | 43,010 | 158,400 | 42,874 | 38,646 |
| -Under provision in prior periods/years | - | - | 36,173 | - | - |
| Expenses relating to lease of low-value assets | | | | | |
| -Hire of crane | 126,402 | 185,167 | 296,724 | 228,770 | 101,595 |
| -Hire of forklift | 80,535 | 11,280 | 28,180 | 14,895 | - |
| -Hire of lorry | 19,200 | 21,400 | 74,200 | 993 | 1,398 |
| -Hire of vehicle | - | 269 | 270 | - | 421 |
| Realised loss on foreign exchange | 105,544 | 227,468 | 297,498 | 223,411 | 147,534 |
| Rental of premises | 166,981 | 168,540 | 223,650 | 504,846 | 442,742 |

## 25. TAX EXPENSE

| | **Audited** 1.1.2020 to 30.9.2020 RM | **Unaudited** 1.1.2019 to 30.9.2019 RM | **Audited** 1.1.2019 to 31.12.2019 RM | **Audited** 1.1.2018 to 31.12.2018 RM | **Audited** 1.1.2017 to 31.12.2017 RM |
|---|---|---|---|---|---|
| **Current tax expense:-** | | | | | |
| - current periods/years provision | 3,718,127 | (195,729) | 1,006,626 | 1,663,220 | 235,575 |
| - Under provision in prior periods/years | 187,374 | 127,370 | 127,370 | 8,678 | - |
| | 3,905,501 | (68,359) | 1,133,996 | 1,671,898 | 235,575 |
| **Deferred taxation (Note 7)** | | | | | |
| - current periods/years provision | (2,765,874) | 842,071 | 577,725 | (579,238) | (22,221) |
| - Over provision in prior periods/years | (566) | - | - | (130,669) | - |
| | (2,766,440) | 842,071 | 577,725 | (709,907) | (22,221) |
| | 1,139,061 | 773,712 | 1,711,721 | 961,991 | 213,354 |

The Group's income generated from one of the products, the "Glove Chlorination Systems" is not subject to tax as it has been granted the pioneer status incentive under the Promotion of Investment Act 1986. The Group enjoys full exemption from income tax on its statutory income from the pioneer activities for five years, from 10 May 2014 to 9 May 2018. The Group does not extend the exemption after the period expired on 9 May 2018.

## 25. TAX EXPENSE (CONT'D)

A reconciliation of income tax expenses applicable to profit before tax at the statutory tax rate to income tax expense at the effective tax rate of the Group are as follows:-

| | **Audited** | **Unaudited** | ← | **Audited** | → |
|---|---|---|---|---|---|
| | 1.1.2020 to 30.9.2020 | 1.1.2019 to 30.9.2019 | 1.1.2019 to 31.12.2019 | 1.1.2018 to 31.12.2018 | 1.1.2017 to 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Profit before tax | 3,804,770 | 2,818,558 | 6,307,111 | 5,378,914 | 4,636,367 |
| Tax at Malaysia statutory rate of | | | | | |
| - 24% | 913,145 | 676,454 | 1,513,707 | 1,290,939 | 1,112,728 |
| Tax effect in respect of:- | | | | | |
| Non-allowable expenses | 206,205 | 72,587 | 220,973 | 242,745 | 89,787 |
| Income not subject to tax | (125,097) | 2,079 | (115,329) | (88,541) | (143,057) |
| Tax savings | (42,000) | (35,000) | (35,000) | (30,000) | (30,000) |
| Pioneer income exempted from taxation | - | (69,778) | - | (331,161) | (816,104) |
| Over provision of deferred taxation in prior periods/years | (566) | - | - | (130,669) | - |
| Under provision of tax in prior periods/years | 187,374 | 127,370 | 127,370 | 8,678 | - |
| Tax expense for the financial periods/years | 1,139,061 | 773,712 | 1,711,721 | 961,991 | 213,354 |

## 26. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing profit for the financial periods/years attributable to ordinary equity holders of the Group over the weighted average number of ordinary shares in issue during the financial periods/years as follows:

| | **Audited** | **Unaudited** | ← | **Audited** | → |
|---|---|---|---|---|---|
| | 1.1.2020 to 30.9.2020 | 1.1.2019 to 30.9.2019 | 1.1.2019 to 31.12.2019 | 1.1.2018 to 31.12.2018 | 1.1.2017 to 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Profit for the financial periods/year sattributable to ordinary equity holders of the Group (RM) | 2,704,770 | 2,019,353 | 4,605,740 | 4,288,597 | 4,396,452 |
| Weighted average number of ordinary shares in issue (unit) | 519,800 | 517,963 | 518,404 | 501,977 | 501,225 |
| Basic earnings per share (sen) | 520.35 | 389.86 | 888.45 | 854.34 | 877.14 |

## 26. EARNINGS PER SHARE (CONT'D)

Diluted earnings per share

Diluted earnings per share is not applicable as the Group does not have potential dilutive equity instruments that would give a diluted effect to the basic earnings per share.

## 27. DIVIDENDS

During the financial periods/years, the following dividends have been paid/payable by the Group are as follows:-

| | Audited | Unaudited | Audited | | |
|---|---|---|---|---|---|
| | 1.1.2020 to 30.9.2020 | 1.1.2019 to 30.9.2019 | 1.1.2019 to 31.12.2019 | 1.1.2018 to 31.12.2018 | 1.1.2017 to 31.12.2017 |
| | RM | RM | RM | RM | RM |
| **In respect of financial year ended 31 December 2020:-** | | | | | |
| First interim single tier dividend of RM1.40 per ordinary share | 700,000 | - | - | - | - |
| **In respect of financial year ended 31 December 2019:-** | | | | | |
| First interim single tier dividend of RM0.60 per ordinary share | - | 300,000 | 300,000 | - | - |
| Second interim single tier dividend of RM0.60 per ordinary share | - | - | 300,000 | - | - |
| **In respect of financial year ended 31 December 2018:-** | | | | | |
| Final interim single tier dividend of RM0.72 per ordinary share | - | 360,000 | 360,000 | - | - |
| First interim single tier dividend of RM0.60 per ordinary share | - | - | - | 300,000 | - |
| Second interim single tier dividend of RM0.60 per ordinary share | - | - | - | 300,000 | - |
| Third interim single tier dividend of RM0.60 per ordinary share | - | - | - | 300,000 | - |
| **In respect of financial year ended 31 December 2017:-** | | | | | |
| First interim single tier dividend of RM0.40 per ordinary share | - | - | - | - | 200,000 |
| Second interim single tier dividend of RM0.40 per ordinary share | - | - | - | - | 200,000 |
| A final single tier dividend of RM0.80 per ordinary share | - | - | - | - | 400,000 |
| **In respect of financial year ended 31 December 2016:-** | | | | | |
| First interim single tier dividend of RM1.33 per ordinary share | - | - | - | - | - |
| Second interim single tier dividend of RM0.40 per ordinary share | - | - | - | - | - |
| A final single tier dividend of RM0.40 per ordinary share | - | - | - | - | 200,000 |
| | 700,000 | 660,000 | 960,000 | 900,000 | 1,000,000 |

## 28. EMPLOYEE BENEFITS EXPENSES

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 1.1.2020 to 30.9.2020 | 1.1.2019 to 30.9.2019 | 1.1.2019 to 31.12.2019 | 1.1.2018 to 31.12.2018 | 1.1.2017 to 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Salaries and other emoluments | 2,794,991 | 2,663,320 | 3,496,942 | 2,551,400 | 1,922,384 |
| Defined contribution plan | 310,355 | 181,055 | 327,775 | 254,716 | 175,632 |
| Social security contributions | 35,089 | 23,237 | 38,520 | 26,242 | 22,629 |
| Employee insurance system | 2,192 | 1,002 | 2,287 | 1,791 | - |
| Other benefits* | 124,350 | 88,487 | 148,148 | 751,930 | 135,617 |
| | 3,266,977 | 2,957,101 | 4,013,672 | 3,586,079 | 2,256,262 |

* Included in the other benefits was an amount of 30.9.2020: RMNil (30.9.2019: RMNil; 31.12.2019: RMNil; 31.12.2018: RM631,154 and 31.12.2017: RMNil) for employees benefits through transfer of the Group shares to employees.

Included in the employee benefit expenses are the Directors' remuneration as below:-

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 1.1.2020 to 30.9.2020 | 1.1.2019 to 30.9.2019 | 1.1.2019 to 31.12.2019 | 1.1.2018 to 31.12.2018 | 1.1.2017 to 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Salaries and other emoluments | 768,508 | 643,881 | 885,440 | 454,370 | 393,582 |
| Defined contribution plan | 101,070 | 84,480 | 128,740 | 75,468 | 41,760 |
| Social security contributions | 1,864 | 1,588 | 2,539 | 1,847 | 1,657 |
| Other benefits | 7,671 | 190 | 22,044 | 8,717 | - |
| | 879,113 | 730,139 | 1,038,763 | 540,402 | 436,999 |

The estimated value of benefits-in-kind provided to Directors during the financial periods/years amounted to 30.9.2020: RM28,788 (30.9.2019: RM19,575; 31.12.2019: RM26,100; 31.12.2018: RM15,300 and 31.12.2017: RM15,300).

## 29. CONTINGENCIES

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| **Bank Guarantees** | | | | | |
| Secured:- | | | | | |
| Performance guarantee extended to a customer | - | - | - | - | 62,400 |

## 30. CAPITAL COMMITMENT

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Authorised and contracted for:- | | | | | |
| - Property, plant and equipment | 1,594,600 | 7,353,584 | 4,100,800 | - | 41,780 |

## 31. RELATED PARTY DISCLOSURES

The Group has related party relationship with its subsidiary, related parties and persons connected to the Director.

(a) Related party transactions have been entered into the normal course of business under normal trade terms. The related party transactions during the financial periods/years are as follows:-

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 1.1.2020 to 30.9.2020 | 1.1.2019 to 30.9.2019 | 1.1.2019 to 31.12.2019 | 1.1.2018 to 31.12.2018 | 1.1.2017 to 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Dividend income received from a subsidiary | - | - | 195,287 | - | - |
| Casual labour charged by a subsidiary | 501,286 | 911,374 | 1,234,558 | 952,777 | 322,187 |
| Transportation charged by a subsidiary | 26,743 | 73,755 | 82,115 | 39,367 | 26,647 |
| Purchase from a subsidiary | 40,653 | 8,340 | 8,340 | 34,232 | 70,844 |
| Hire of crane charged by a subsidiary | 9,192 | - | - | - | - |
| Factory expenses charged by a subsidiary | - | - | - | 10,408 | - |
| Tool and accessories charged by a subsidiary | 13,263 | - | - | - | - |
| Management fee charged by a subsidiary | - | - | - | - | 9,524 |
| Rental of premises charged by a subsidiary | - | - | - | - | 18,907 |
| Travelling expenses charged by a subsidiary | - | - | - | - | 20,550 |
| Rental charged by Director's spouse | 18,074 | 17,916 | 21,138 | - | - |

## 31. RELATED PARTY DISCLOSURES (CONT'D)

The Group has related party relationship with its subsidiary, related parties and persons connected to the Director (cont'd).

(a) Related party transactions have been entered into the normal course of business under normal trade terms. The related party transactions during the financial periods/years are as follows (cont'd):-

| | **Audited** | **Unaudited** | ← | **Audited** | → |
|---|---|---|---|---|---|
| | 1.1.2020 to 30.9.2020 | 1.1.2019 to 30.9.2019 | 1.1.2019 to 31.12.2019 | 1.1.2018 to 31.12.2018 | 1.1.2017 to 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Vehicle rental charged by Director's spouse | 12,049 | 35,833 | 48,231 | 44,976 | 45,581 |
| Maintenance fee charged by related party(1) | - | - | - | 50,000 | 96,000 |
| Rental charged by a related party(1) | 49,500 | 49,500 | 66,000 | 87,000 | 84,000 |
| Factory rental charged by Director's elder brother | - | - | - | 226,000 | 228,000 |
| Purchases from a related party(2) | 94,657 | 84,480 | 105,600 | 168,978 | 584,085 |

(1) Related party refers to an entity in which Director's brother and sister-in-law have interest.

(2) Related party refers to an entity in which Director's father and brothers have interest.

(b) Key management personnel is defined as those person having authority and responsibility for planning, directing and controlling the activities of the group either directly or indirectly and entity that provides key management personnel services to the Group.

The remuneration of key management personnel is same as the Directors' remuneration as disclosed in Note 28 to the financial statements. The Group have no other members of key management personnel apart from the Board of Directors.

## 32. SEGMENTAL REPORTING – GROUP

For management purposes, the Group is organised into business units based on its nature of business and has only one reportable segment, as follow:-

| | | |
|---|---|---|
| Engineering | - | Design, engineering, installation and commissioning of glove chlorination systems, as well as design and for the installation of storage tanks and process tanks for the glove manufacturing industry |
| Trading and services | - | Installation and maintenance of glove chlorination systems, storage tanks and process tanks for the glove manufacturing industry |
| Other | - | Investment holding |

The Managing Director 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 profit or loss and is measured consistently with profit or loss in the combined financial statements.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, liabilities and expenses.

Segment revenue, expenses and results include transfers between business segments. These transfers are eliminated on consolidation. Transfer prices between business segments are established on terms and conditions that are mutually agreed upon.

**Business segments**

| | Note | Engineering<br>RM | Trading and services<br>RM | Other<br>RM | Elimination<br>RM | Combined<br>RM |
|---|---|---|---|---|---|---|
| **Audited 30.9.2020** | | | | | | |
| **Revenue:-** | | | | | | |
| External customers | | 34,908,878 | 98,062 | - | - | 35,006,940 |
| Inter-segment | | - | 592,122 | - | (592,122) | - |
| **Results:-** | | | | | | |
| Finance income | | 18,679 | - | - | - | 18,679 |
| Finance costs | | (57,984) | (2,895) | - | - | (60,879) |
| Depreciation of property, plant and equipment | | (489,946) | (62,721) | - | - | (552,667) |
| Tax expense | | (1,139,061) | - | - | - | (1,139,061) |
| Other non-cash expenses | (i) | 1,010,374 | - | - | - | 1,010,374 |
| Segment profit/(loss) | | 2,744,921 | (76,590) | (2,622) | - | 2,665,709 |

## 32. SEGMENTAL REPORTING – GROUP (CONT'D)

**Business segments (cont'd)**

| | Note | Engineering RM | Trading and services RM | Other RM | Elimination RM | Combined RM |
|---|---|---|---|---|---|---|
| **Audited (cont'd)** | | | | | | |
| **30.9.2020 (cont'd)** | | | | | | |
| **Assets:-** | | | | | | |
| Additions to non-current asset - property, plant and equipment | | 3,360,732 | 77,926 | - | - | 3,438,658 |
| Segment assets | | 59,447,813 | 678,055 | 20 | (414,127) | 59,711,761 |
| **Liabilities:-** | | | | | | |
| Segment liabilities | | 36,536,754 | 211,539 | 5,122 | (467,371) | 36,286,044 |
| **Unaudited** | | | | | | |
| **30.9.2019** | | | | | | |
| **Revenue:-** | | | | | | |
| External customers | | 35,092,807 | - | - | - | 35,092,807 |
| Inter-segment | | - | 1,007,562 | - | (1,007,562) | - |
| **Results:-** | | | | | | |
| Finance income | | 38,918 | - | - | - | 38,918 |
| Finance costs | | (91,785) | (369) | - | - | (92,154) |
| Depreciation of property, plant and equipment | | (429,578) | (31,279) | - | - | (460,857) |
| Tax expense | | (773,712) | - | - | - | (773,712) |
| Other non-cash expenses | (i) | (110,033) | - | - | - | (110,033) |
| Segment profit/(loss) | | 2,217,712 | 49,986 | (1,750) | (221,102) | 2,044,846 |
| **Assets:-** | | | | | | |
| Additions to non-current asset - property, plant and equipment | | 757,424 | 329,674 | - | - | 1,087,098 |
| Segment assets | | 31,803,417 | 894,322 | 20 | (190,161) | 32,507,598 |
| **Liabilities:-** | | | | | | |
| Segment liabilities | | 13,207,709 | 256,420 | 1,750 | (190,161) | 13,275,718 |

## 32. SEGMENTAL REPORTING – GROUP (CONT'D)

### Business segments (cont'd)

| | Note | Engineering<br>RM | Trading and services<br>RM | Other<br>RM | Elimination<br>RM | Combined<br>RM |
|---|---|---|---|---|---|---|
| **Audited 31.12.2019** | | | | | | |
| **Revenue:-** | | | | | | |
| External customers | | 49,838,956 | - | - | - | 49,838,956 |
| Inter-segment | | - | 1,338,627 | - | (1,338,627) | - |
| **Results:-** | | | | | | |
| Finance income | | 55,560 | 4,289 | - | - | 59,849 |
| Finance costs | | (124,549) | (2,194) | - | - | (126,743) |
| Depreciation of property, plant and equipment | | (581,208) | (51,914) | - | - | (633,122) |
| Tax expense | | (1,711,721) | - | - | - | (1,711,721) |
| Other non-cash expenses | (i) | (845,499) | - | - | - | (845,499) |
| Segment profit/(loss) | | 4,788,142 | (20,294) | (2,500) | (169,958) | 4,595,390 |
| **Assets:-** | | | | | | |
| Additions to non-current asset - property, plant and equipment | | 3,990,543 | 334,265 | - | - | 4,324,808 |
| Segment assets | | 36,422,402 | 781,268 | 20 | (346,391) | 36,857,299 |
| **Liabilities:-** | | | | | | |
| Segment liabilities | | 15,556,264 | 216,446 | 2,500 | (399,635) | 15,375,575 |

## 32. SEGMENTAL REPORTING – GROUP (CONT'D)

### Business segments (cont'd)

| | Note | Engineering RM | Trading and services RM | Other RM | Elimination RM | Combined RM |
|---|---|---|---|---|---|---|
| **Audited 31.12.2018** | | | | | | |
| **Revenue:-** | | | | | | |
| External customers | | 48,321,841 | - | - | - | 48,321,841 |
| Inter-segment | | - | 990,405 | - | (990,405) | - |
| **Results:-** | | | | | | |
| Finance income | | 39,772 | 2,598 | - | - | 42,370 |
| Finance costs | | (157,422) | - | - | - | (157,422) |
| Depreciation of property, plant and equipment | | (542,539) | (12,794) | - | - | (555,333) |
| Tax expense | | (923,720) | (38,271) | - | - | (961,991) |
| Other non-cash expenses | (i) | (80,754) | - | - | - | (80,754) |
| Segment profit | | 4,165,303 | 251,620 | - | - | 4,416,923 |
| **Assets:-** | | | | | | |
| Additions to non-current asset - property, plant and equipment | | 2,039,581 | 3,146 | - | - | 2,042,727 |
| Segment assets | | 36,899,776 | 824,036 | - | (190,161) | 37,533,651 |
| **Liabilities:-** | | | | | | |
| Segment liabilities | | 19,861,780 | 103,206 | - | (190,161) | 19,774,825 |

## 32. SEGMENTAL REPORTING – GROUP (CONT'D)

### Business segments (cont'd)

| | Note | Engineering RM | Trading and services RM | Other RM | Elimination RM | Combined RM |
|---|---|---|---|---|---|---|
| **Audited 31.12.2017** | | | | | | |
| **Revenue:-** | | | | | | |
| External customers | | 29,902,071 | - | - | - | 29,902,071 |
| Inter-segment | | - | 534,863 | - | (534,863) | - |
| **Results:-** | | | | | | |
| Finance income | | 33,160 | 486 | - | - | 33,646 |
| Finance costs | | (90,156) | - | - | - | (90,156) |
| Depreciation of property, plant and equipment | | (466,500) | (11,582) | - | - | (478,082) |
| Tax expense | | (210,779) | (2,575) | - | - | (213,354) |
| Other non-cash income | (i) | 571,613 | - | - | - | 571,613 |
| Segment profit | | 4,386,443 | 52,081 | - | (15,511) | 4,423,013 |
| **Assets:-** | | | | | | |
| Additions to non-current asset:- property, plant and equipment | | 340,651 | 5,459 | - | - | 346,110 |
| Segment assets | | 26,431,306 | 249,001 | - | - | 26,680,307 |
| **Liabilities:-** | | | | | | |
| Segment liabilities | | 13,289,767 | 11,249 | - | - | 13,301,016 |

32. **SEGMENTAL REPORTING – GROUP (CONT'D)**

Notes to the nature of adjustments and eliminations to arrive at amounts reported in the combined financial information:-

(i) Other material non-cash income/(expenses) consist of the following items:-

| | **Audited** | **Unaudited** | **Audited** | | |
|---|---|---|---|---|---|
| | 1.1.2020 to 30.9.2020 | 1.1.2019 to 30.9.2019 | 1.1.2019 to 31.12.2019 | 1.1.2018 to 31.12.2018 | 1.1.2017 to 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Gain on disposal of property, plant and equipment | - | 82,890 | 83,945 | 12,144 | 27,650 |
| Unrealised gain/(loss) on foreign exchange | 146,643 | 92,871 | 131,177 | 59,241 | (8,836) |
| Gain/(Loss) on disposal of investments in equity instruments | 304,728 | 34,267 | 34,267 | (14,700) | - |
| Property, plant and equipment written off | (209) | (1,253) | (1,252) | (380,233) | (105) |
| Fair value (loss)/gain on investments in equity instruments | - | (318,808) | (534,424) | 242,794 | 552,904 |
| Impairment of financial asset | - | - | (559,212) | - | - |
| Reversal of impairment of financial asset | 559,212 | - | - | - | - |
| | 1,010,374 | (110,033) | (845,499) | (80,754) | 571,613 |

32. **SEGMENTAL REPORTING – GROUP (CONT'D)**

### Geographical segments

The Group operates in Malaysia, Vietnam, Sri Lanka, Thailand and Indonesia. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

The following table provides an analysis of the Group's revenue by geographical segment:-

| | **Audited** | **Unaudited** | ← | **Audited** | → |
|---|---|---|---|---|---|
| | 1.1.2020 to 30.9.2020 | 1.1.2019 to 30.9.2019 | 1.1.2019 to 31.12.2019 | 1.1.2018 to 31.12.2018 | 1.1.2017 to 31.12.2017 |
| | RM | RM | RM | RM | RM |
| **Revenue from external customers** | | | | | |
| Malaysia | 30,202,750 | 21,953,954 | 33,982,500 | 37,720,949 | 24,464,464 |
| Thailand | 3,059,643 | 4,642,865 | 5,370,696 | 1,695,006 | 2,703,911 |
| Vietnam | 1,535,332 | 8,388,824 | 10,343,838 | 8,797,440 | 2,601,482 |
| Indonesia | 23,537 | 67,324 | 92,930 | 58,095 | 130,159 |
| Sri Lanka | 185,678 | 39,840 | 48,992 | 50,351 | 2,055 |
| | 35,006,940 | 35,092,807 | 49,838,956 | 48,321,841 | 29,902,071 |

### Major customers

The following are the major customers with revenue equal or more than 10% of the Group's revenue for the financial periods/years ended 30 September 2020, 30 September 2019, 31 December 2019, 31 December 2018 and 31 December 2017.

| | **Audited** | **Unaudited** | ← | **Audited** | → |
|---|---|---|---|---|---|
| | 1.1.2020 to 30.9.2020 | 1.1.2019 to 30.9.2019 | 1.1.2019 to 31.12.2019 | 1.1.2018 to 31.12.2018 | 1.1.2017 to 31.12.2017 |
| | RM | RM | RM | RM | RM |
| Customer A | 11,194,488 | 12,042,793 | 20,387,727 | 15,354,110 | 9,319,546 |
| Customer B | 7,438,952 | 8,280,662 | 10,181,754 | 7,927,464 | - |
| Customer C | - | - | 4,771,927 | - | - |
| Customer D | - | - | - | 5,819,135 | 4,280,358 |
| Customer E | - | - | - | - | 3,808,527 |
| Customer F | 6,099,690 | - | - | - | - |
| Customer G | - | 4,540,837 | - | - | - |

## 33. FINANCIAL INSTRUMENTS

### 33.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as follows:-

i. Fair value through profit or loss classified as held for trading ("FVTPL"); and
ii. Financial assets and financial liabilities measured of amortised cost ("AC")

| | Carrying amount RM | FVTPL RM | AC RM |
|---|---|---|---|
| **Audited** | | | |
| **30.9.2020** | | | |
| **Financial assets** | | | |
| Trade receivables | 22,906,700 | - | 22,906,700 |
| Other receivables | 458,649 | - | 458,649 |
| Cash and bank balances | 11,827,006 | - | 11,827,006 |
| | 35,192,355 | - | 35,192,355 |
| **Financial liabilities** | | | |
| Trade payables | 8,916,377 | - | 8,916,377 |
| Other payables and accruals | 238,024 | - | 238,024 |
| Bank borrowings | 9,753,066 | - | 9,753,066 |
| | 18,907,467 | - | 18,907,467 |
| **Unaudited** | | | |
| **30.9.2019** | | | |
| **Financial assets** | | | |
| Investments in equity instruments | 3,038,394 | 3,038,394 | - |
| Trade receivables | 8,753,521 | - | 8,753,521 |
| Other receivables | 572,049 | - | 572,049 |
| Amount due from a Director | 274,036 | - | 274,036 |
| Fixed deposits with a licensed financial institution | 1,187,363 | - | 1,187,363 |
| Cash and bank balances | 3,379,213 | - | 3,379,213 |
| | 17,204,576 | 3,038,394 | 14,166,182 |
| **Financial liabilities** | | | |
| Trade payables | 7,019,000 | - | 7,019,000 |
| Other payables and accruals | 388,275 | - | 388,275 |
| Bank borrowings | 4,884,480 | - | 4,884,480 |
| | 12,291,755 | - | 12,291,755 |

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.1 Categories of financial instruments (cont'd)

The table below provides an analysis of financial instruments categorised as follows (cont'd):-

i. Fair value through profit or loss classified as held for trading ("FVTPL"); and
ii. Financial assets and financial liabilities measured of amortised cost ("AC")

| | Carrying amount RM | FVTPL RM | AC RM |
|---|---|---|---|
| **Audited** | | | |
| **31.12.2019** | | | |
| **Financial assets** | | | |
| Investments in equity instruments | 2,822,778 | 2,822,778 | - |
| Trade receivables | 11,756,640 | - | 11,756,640 |
| Other receivables | 595,998 | - | 595,998 |
| Cash and bank balances | 3,929,788 | - | 3,929,788 |
| | 19,105,204 | 2,822,778 | 16,282,426 |
| **Financial liabilities** | | | |
| Trade payables | 6,515,432 | - | 6,515,432 |
| Other payables and accruals | 363,430 | - | 363,430 |
| Bank borrowings | 7,069,491 | - | 7,069,491 |
| | 13,948,353 | - | 13,948,353 |

| | Carrying amount RM | FVTPL RM | AC RM |
|---|---|---|---|
| **Audited** | | | |
| **31.12.2018** | | | |
| **Financial assets** | | | |
| Investments in equity instruments | 2,659,728 | 2,659,728 | - |
| Trade receivables | 14,465,297 | - | 14,465,297 |
| Other receivables | 692,336 | - | 692,336 |
| Amount due from a Director | 179,923 | - | 179,923 |
| Amount due from a shareholder | 215,146 | - | 215,146 |
| Fixed deposits with a licensed financial institution | 1,160,193 | - | 1,160,193 |
| Cash and bank balances | 5,164,473 | - | 5,164,473 |
| | 24,537,096 | 2,659,728 | 21,877,368 |
| **Financial liabilities** | | | |
| Trade payables | 8,954,303 | - | 8,954,303 |
| Other payables and accruals | 1,153,168 | - | 1,153,168 |
| Bank borrowings | 4,953,472 | - | 4,953,472 |
| | 15,060,943 | - | 15,060,943 |

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.1 Categories of financial instruments (cont'd)

The table below provides an analysis of financial instruments categorised as follows (cont'd):-

i. Fair value through profit or loss classified as held for trading ("FVTPL"); and
ii. Financial assets and financial liabilities measured of amortised cost ("AC")

| | Carrying amount RM | FVTPL RM | AC RM |
|---|---|---|---|
| **Audited** | | | |
| **31.12.2017** | | | |
| **Financial assets** | | | |
| Investments in equity instruments | 2,292,360 | 2,292,360 | - |
| Trade receivables | 7,375,082 | - | 7,375,082 |
| Other receivables | 204,491 | - | 204,491 |
| Fixed deposits with a licensed financial institution | 1,123,785 | - | 1,123,785 |
| Cash and bank balances | 6,200,919 | - | 6,200,919 |
| | 17,196,637 | 2,292,360 | 14,904,277 |
| **Financial liabilities** | | | |
| Trade payables | 5,918,846 | - | 5,918,846 |
| Other payables and accruals | 1,292,693 | - | 1,292,693 |
| Bank borrowings | 4,711,151 | - | 4,711,151 |
| | 11,922,690 | - | 11,922,690 |

### 33.2 Financial risk management objectives and policies

**Financial risks**

The Group is exposed to financial risks arising from its operations and the use of financial instruments. Financial risk management policy is established to ensure that adequate resources are available for the development of Group's business whilst managing its credit risk, liquidity risk, foreign currency risk and interest rate risk. The Group operates within clearly defined policies and procedures that are approved by the Board of Directors to ensure the effectiveness of the risk management process.

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows:-

(a) **Credit risk**

Credit risk is the risk of a financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It is the Group's policy to enter into financial instrument with a diversity of creditworthy counterparties. The Group does not expect to incur material credit losses of its financial assets or other financial instruments.

33. **FINANCIAL INSTRUMENTS (CONT'D)**

33.2 **Financial risk management objectives and policies (cont'd)**

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(a) **Credit risk (cont'd)**

Concentration of credit risk exists when changes in economic, industry and geographical factors similarly affect the Group of counterparties whose aggregate credit exposure is significant in relation of the Group's total credit exposure. The Group's portfolio of financial instrument is broadly diversified along industry, product and geographical lines, and transactions are entered into with diverse creditworthy counterparties, thereby mitigate any significant concentration of credit risk.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group does not offer credit terms without the approval of the management.

Following are the areas where the Group is exposed to credit risk:-

(i) Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

The risk management committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external rating, if they are available, financial statements, credit agency information, industry information and in some cases bank references. Sale limits are established for each customer and reviewed quarterly.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesale, retail, their geographic location, industry, trading history with the Group and existence of previous financial difficulties.

33. **FINANCIAL INSTRUMENTS (CONT'D)**

33.2 **Financial risk management objectives and policies (cont'd)**

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(a) **Credit risk (cont'd)**

Following are the areas where the Group is exposed to credit risk (cont'd):-

(i) Receivables (cont'd)

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Generally, the gross carrying amounts of financial assets are written off when there is no reasonable expectation of recovery despite the fact that they are still subject to enforcement activities. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 33.2(a) to the combined financial statements. The Group and the Company do not hold collateral as security. The Group and the Company evaluate the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

| | | | Trade receivables Days past due | | | |
|---|---|---|---|---|---|---|
| | **Current** | **<30 days** | **30-60 days** | **61-90 days** | **>91 days** | **Total** |
| | **RM** | **RM** | **RM** | **RM** | **RM** | **RM** |
| **Audited** | | | | | | |
| **30.9.2020** | | | | | | |
| Expected credit loss rate | - | - | - | - | - | |
| Estimated total gross carrying amount | 16,787,974 | 3,987,178 | 1,544,575 | 363,013 | 223,960 | 22,906,700 |
| Expected credit loss (collective) | - | - | - | - | - | - |
| Expected credit loss (individual) | - | - | - | - | - | - |

33. **FINANCIAL INSTRUMENTS (CONT'D)**

33.2 **Financial risk management objectives and policies (cont'd)**

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(a) **Credit risk (cont'd)**

Following are the areas where the Group is exposed to credit risk (cont'd):-

(i) Receivables (cont'd)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix (cont'd):

| | | | Trade receivables Days past due | | | |
|---|---|---|---|---|---|---|
| | **Current** | **<30 days** | **30-60 days** | **61-90 days** | **>91 days** | **Total** |
| | **RM** | **RM** | **RM** | **RM** | **RM** | **RM** |
| **Unaudited 30.9.2019** | | | | | | |
| Expected credit loss rate | - | - | - | - | - | |
| Estimated total gross carrying amount | 3,779,132 | 2,172,272 | 393,016 | 375,793 | 2,033,308 | 8,753,521 |
| Expected credit loss (collective) | - | - | - | - | - | - |
| Expected credit loss (individual) | - | - | - | - | - | - |
| **Audited 31.12.2019** | | | | | | |
| Expected credit loss rate | - | - | - | - | 33.10% | |
| Estimated total gross carrying amount | 7,980,185 | 2,358,322 | 240,685 | 46,981 | 1,689,679 | 12,315,852 |
| Expected credit loss (collective) | - | - | - | - | - | - |
| Expected credit loss (individual) | - | - | - | - | 559,212 | 559,212 |
| **Audited 31.12.2018** | | | | | | |
| Expected credit loss rate | - | - | - | - | - | |
| Estimated total gross carrying amount | 8,326,583 | 2,719,189 | 522,946 | 127,295 | 2,769,284 | 14,465,297 |
| Expected credit loss (collective) | - | - | - | - | - | - |
| Expected credit loss (individual) | - | - | - | - | - | - |
| **Audited 31.12.2017** | | | | | | |
| Expected credit loss rate | - | - | - | - | - | |
| Estimated total gross carrying amount | 3,923,027 | 758,190 | 466,101 | 278,680 | 1,949,084 | 7,375,082 |
| Expected credit loss (collective) | - | - | - | - | - | - |
| Expected credit loss (individual) | - | - | - | - | - | - |

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.2 Financial risk management objectives and policies (cont'd)

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(a) **Credit risk (cont'd)**

Following are the areas where the Group is exposed to credit risk (cont'd):-

(ii) Cash and cash equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(iii) Investments in equity instruments

At the end of the reporting period, the Group and the Company have investments in in overseas and domestic securities. The maximum exposure to credit risk is represented by the carrying amounts in the statements of financial position.

(b) **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due as a result of shortage of funds.

In managing its exposures to liquidity risk, the Group maintains a level of cash and cash equivalents and bank facilities deemed adequate by the management to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as and when they fall due.

The Group aims at maintaining a balance of sufficient cash and deposits and flexibility in funding by keeping diverse sources of committed and uncommitted credit facilities from various banks.

The liquidity risks are principally from its trade, other payables and accruals, lease liabilities and bank borrowings.

The summary of the maturity profile based on the contractual undiscounted repayment obligation are set out as follows:-

| | | | | Non-current | | |
|---|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flow | less than 1 year | 1 to 2 years | 2 to 5 years | More than 5 years |
| | RM | RM | RM | RM | RM | RM |
| **Audited** | | | | | | |
| **30.9.2020** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | 8,916,377 | 8,916,377 | 8,916,377 | - | - | - |
| Other payables and accruals | 238,024 | 238,024 | 238,024 | - | - | - |
| Bank borrowings | 9,753,066 | 9,821,254 | 384,468 | 384,468 | 1,153,404 | 7,898,914 |
| Lease liabilities | 1,038,448 | 1,067,170 | 258,289 | 352,857 | 456,024 | - |
| **Total undiscounted financial liabilities** | 19,945,915 | 20,042,825 | 9,797,158 | 737,325 | 1,609,428 | 7,898,914 |

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.2 Financial risk management objectives and policies (cont'd)

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(b) **Liquidity risk (cont'd)**

The summary of the maturity profile based on the contractual undiscounted repayment obligation are set out as follows (cont'd):-

| | Carrying amount | Contractual cash flow | less than 1 year | ← Non-current | | → |
|---|---|---|---|---|---|---|
| | | | | 1 to 2 years | 2 to 5 years | More than 5 years |
| | RM | RM | RM | RM | RM | RM |
| **Unaudited** | | | | | | |
| **30.9.2019** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | 7,019,000 | 7,019,000 | 7,019,000 | - | - | - |
| Other payables and accruals | 388,275 | 388,275 | 388,275 | - | - | - |
| Bank borrowings | 4,884,480 | 7,733,434 | 394,323 | 394,323 | 1,182,969 | 5,761,819 |
| Lease liabilities | 788,372 | 849,710 | 252,668 | 206,810 | 390,232 | - |
| **Total undiscounted financial liabilities** | 13,080,127 | 15,990,419 | 8,054,266 | 601,133 | 1,573,201 | 5,761,819 |
| **Audited** | | | | | | |
| **31.12.2019** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | 6,515,432 | 6,515,432 | 6,515,432 | - | - | - |
| Other payables and accruals | 363,430 | 363,430 | 363,430 | - | - | - |
| Bank borrowings | 7,069,491 | 7,733,434 | 394,323 | 394,323 | 1,182,969 | 5,761,819 |
| Lease liabilities | 712,743 | 772,209 | 246,068 | 203,792 | 322,349 | - |
| **Total undiscounted financial liabilities** | 14,661,096 | 15,384,505 | 7,519,253 | 598,115 | 1,505,318 | 5,761,819 |
| **Audited** | | | | | | |
| **31.12.2018** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | 8,954,303 | 8,954,303 | 8,954,303 | - | - | - |
| Other payables and accruals | 1,153,168 | 1,153,168 | 1,153,168 | - | - | - |
| Bank borrowings | 4,953,472 | 6,481,486 | 394,323 | 394,323 | 1,182,969 | 4,509,871 |
| Lease liabilities | 457,893 | 498,498 | 163,220 | 138,607 | 196,671 | - |
| **Total undiscounted financial liabilities** | 15,518,836 | 17,087,455 | 10,665,014 | 532,930 | 1,379,640 | 4,509,871 |
| **Audited** | | | | | | |
| **31.12.2017** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | 5,918,846 | 5,918,846 | 5,918,846 | - | - | - |
| Other payables and accruals | 1,292,693 | 1,292,693 | 1,292,693 | - | - | - |
| Bank borrowings | 4,711,151 | 7,198,880 | 394,323 | 394,323 | 1,182,969 | 5,227,265 |
| Lease liabilities | 462,697 | 501,753 | 186,851 | 131,878 | 183,024 | - |
| **Total undiscounted financial liabilities** | 12,385,387 | 14,912,172 | 7,792,713 | 526,201 | 1,365,993 | 5,227,265 |

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.2 Financial risk management objectives and policies (cont'd)

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(c) **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.

To mitigate the Group's exposure to foreign currency risk, the Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the Group. The currencies giving rise to this risk is primarily Singapore Dollar ("SGD"), United States Dollar ("USD") and Thailand Baht ("THB").

Foreign currency sensitivity analysis

The following table demonstrates the sensitivity of the Group's profit for the financial periods/years to a reasonably possible change in the SGD, USD and THB exchange rates against the functional currency of the Group, with all other variables held constant.

The Group's exposures to foreign currency risk, based on carrying amounts as at the end of the reporting period was:-

| | SGD<br>RM | USD<br>RM | THB<br>RM |
|---|---|---|---|
| **Audited** | | | |
| **30.9.2020** | | | |
| Trade receivables | - | 8,252,110 | 136,913 |
| Other receivables | - | - | 5,211 |
| Cash and bank balances | - | 111,848 | 178,339 |
| Other payables | - | - | (50,034) |
| Net exposure | - | 8,363,958 | 270,429 |
| **Unaudited** | | | |
| **30.9.2019** | | | |
| Trade receivables | - | 1,471,514 | - |
| Other receivables | - | - | 46,261 |
| Cash and bank balances | 40,373 | 739,572 | 218,473 |
| Other payables | - | - | (65,375) |
| Net exposure | 40,373 | 2,211,086 | 199,359 |
| **Audited** | | | |
| **31.12.2019** | | | |
| Trade receivables | - | 1,503,383 | 68,871 |
| Other receivables | - | - | 30,822 |
| Cash and bank balances | 5,002 | 140,058 | 353,657 |
| Other payables | - | - | (79,191) |
| Net exposure | 5,002 | 1,643,441 | 374,159 |

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.2 Financial risk management objectives and policies (cont'd)

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(c) **Foreign currency risk (cont'd)**

Foreign currency sensitivity analysis (cont'd)

The Group's exposures to foreign currency risk, based on carrying amounts as at the end of the reporting period was (cont'd):-

| | SGD<br>RM | USD<br>RM | THB<br>RM |
|---|---|---|---|
| **Audited** | | | |
| **31.12.2018** | | | |
| Trade receivables | - | 3,068,240 | - |
| Other receivables | - | - | 5,211 |
| Cash and bank balances | 61,310 | 420,479 | 370,341 |
| Other payables | - | - | (63,214) |
| Net exposure | 61,310 | 3,488,719 | 312,338 |
| **Audited** | | | |
| **31.12.2017** | | | |
| Trade receivables | - | 926,690 | - |
| Other receivables | - | - | 11 |
| Cash and bank balances | 13,118 | 263,919 | 144,654 |
| Other payables | - | - | (3,167) |
| Net exposure | 13,118 | 1,190,609 | 141,498 |

| | Profit for the financial periods/years<br>RM |
|---|---|
| **Audited** | |
| **30.9.2020** | |
| THB/RM | |
| - Strengthened 0.44% | 1,190 |
| - Weakened 0.44% | (1,190) |
| USD/RM | |
| - Strengthened 0.18% | 15,055 |
| - Weakened 0.18% | (15,055) |
| SGD/RM | |
| - Strengthened 0.03% | - |
| - Weakened 0.03% | - |

33. **FINANCIAL INSTRUMENTS (CONT'D)**

33.2 **Financial risk management objectives and policies (cont'd)**

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(c) **Foreign currency risk (cont'd)**

Foreign currency sensitivity analysis (cont'd)

The Group's exposures to foreign currency risk, based on carrying amounts as at the end of the reporting period was (cont'd):-

| | Profit for the financial periods/years RM |
|---|---|
| **Unaudited** | |
| **30.9.2019** | |
| THB/RM | |
| - Strengthened 0.86% | 1,714 |
| - Weakened 0.86% | (1,714) |
| USD/RM | |
| - Strengthened 0.15% | 3,317 |
| - Weakened 0.15% | (3,317) |
| SGD/RM | |
| - Strengthened 0.02% | 8 |
| - Weakened 0.02% | (8) |
| **Audited** | |
| **31.12.2019** | |
| THB/RM | |
| - Strengthened 0.64% | 2,395 |
| - Weakened 0.64% | (2,395) |
| USD/RM | |
| - Strengthened 0.08% | 1,315 |
| - Weakened 0.08% | (1,315) |
| SGD/RM | |
| - Strengthened 0.02% | 1 |
| - Weakened 0.02% | (1) |

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.2 Financial risk management objectives and policies (cont'd)

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(c) **Foreign currency risk (cont'd)**

Foreign currency sensitivity analysis (cont'd)

The Group's exposures to foreign currency risk, based on carrying amounts as at the end of the reporting period was (cont'd):-

| | Profit for the financial periods/years RM |
|---|---|
| **Audited** | |
| **31.12.2018** | |
| THB/RM | |
| - Strengthened 0.19% | 593 |
| - Weakened 0.19% | (593) |
| USD/RM | |
| - Strengthened 0.19% | 6,629 |
| - Weakened 0.19% | (6,629) |
| SGD/RM | |
| - Strengthened 0.02% | 12 |
| - Weakened 0.02% | (12) |
| **Audited** | |
| **31.12.2017** | |
| THB/RM | |
| - Strengthened 0.06% | 85 |
| - Weakened 0.06% | (85) |
| USD/RM | |
| - Strengthened 0.85% | 10,120 |
| - Weakened 0.85% | (10,120) |
| SGD/RM | |
| - Strengthened 0.19% | 25 |
| - Weakened 0.19% | (25) |

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.2 Financial risk management objectives and policies (cont'd)

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(d) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

Fixed rate borrowing is exposed to a risk of change in its fair value due to changes in interest rates. Variable rate borrowing is exposed to a risk of change in cash flows due to changes in interest rates. Short term receivables and payables are not significantly exposed to interest rate risk.

The Group's interest rate management objective is to manage the interest expense consistent with maintaining an acceptable level of exposure to interest rate fluctuation. In order to achieve this objective, the Group targets a mix of fixed and floating debt based on assessment of its existing exposure and desired interest rate profile.

The interest rate profile of the Group's significant interest-bearing financial instruments, based on carrying amounts as at the end of the reporting date is as follows:-

| | Audited | Unaudited | ← | Audited | → |
|---|---|---|---|---|---|
| | 30.9.2020 | 30.9.2019 | 31.12.2019 | 31.12.2018 | 31.12.2017 |
| | RM | RM | RM | RM | RM |
| **Fixed rate instruments** | | | | | |
| Lease liabilities | 1,038,448 | 788,372 | 712,743 | 457,893 | 462,697 |
| Bankers' acceptance | 874,000 | 720,000 | 689,000 | 542,000 | - |
| **Floating rate instruments** | | | | | |
| Term loan | 8,879,066 | 4,164,480 | 6,380,491 | 4,411,472 | 4,711,151 |

Interest rate sensitivity analysis

As at reporting date, the Group is exposed to changes in market interest rates through bank borrowings at variable interest rates. Other borrowings are at fixed interest rates. The exposure to interest rates for the Group's short-term placement is considered immaterial.

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.2 Financial risk management objectives and policies (cont'd)

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(d) **Interest rate risk (cont'd)**

Interest rate sensitivity analysis (cont'd)

The following table illustrates the sensitivity of profit to a reasonably possible change in interest rates of +/- 100 basis points ("bp"). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

| | Profit for the financial periods/years | | Equity | |
|---|---|---|---|---|
| | +100 bp RM | -100 bp RM | +100 bp RM | -100 bp RM |
| **Audited** | | | | |
| 30.9.2020 | (88,791) | 88,791 | (88,791) | 88,791 |
| **Unaudited** | | | | |
| 30.9.2019 | (41,645) | 41,645 | (41,645) | 41,645 |
| **Audited** | | | | |
| 31.12.2019 | (63,805) | 63,805 | (63,805) | 63,805 |
| **Audited** | | | | |
| 31.12.2018 | (44,115) | 44,115 | (44,115) | 44,115 |
| **Audited** | | | | |
| 31.12.2017 | (47,112) | 47,112 | (47,112) | 47,112 |

(e) **Equity price risk**

Market price risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices (other than exchange or interest rates). Equity price risk arises from the Group's investments in equity securities quoted in Bursa Malaysia, Singapore Exchange and Wiener Börse.

Management of the Group monitor the equity investments on a portfolio basis. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Directors of the Group.

As at 30.9.2020, the Group do not have investment in equity instruments and hence, is not exposed to equity price risk.

33. **FINANCIAL INSTRUMENTS (CONT'D)**

33.2 **Financial risk management objectives and policies (cont'd)**

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(e) **Equity price risk (cont'd)**

This analysis assumes that all other variables remain constant the Group's equity investments moved in correlation with FTSE Bursa Malaysia KLCI ("FBMKLCI"), Straits Times Index ("STI") and Austrian Traded Index ("ATX").

Equity price risk sensitivity analysis

| | Profit for the financial periods/years RM |
|---|---|
| **Unaudited** | |
| **30.9.2019** | |
| STI | |
| -Increased by 2.06% | 61,941 |
| -Decreased by 2.06% | (61,941) |
| ATX | |
| -Increased by 2.90% | 1,020 |
| -Decreased by 2.90% | (1,020) |
| **Audited** | |
| **31.12.2019** | |
| STI | |
| -Increased by 1.47% | 41,021 |
| -Decreased by 1.47% | (41,021) |
| ATX | |
| -Increased by 2.66% | 935 |
| -Decreased by 2.66% | (935) |
| **Audited** | |
| **31.12.2018** | |
| FBMKLCI | |
| -Increased by 0.45% | 1,241 |
| -Decreased by 0.45% | (1,241) |
| STI | |
| -Increased by 0.11% | 2,593 |
| -Decreased by 0.11% | (2,593) |
| ATX | |
| -Increased by 0.57% | 201 |
| -Decreased by 0.57% | (201) |

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.2 Financial risk management objectives and policies (cont'd)

**Financial risks (cont'd)**

The main areas of financial risks faced by the Group and the policy in respect of the major areas of treasury activities are set out as follows (cont'd):-

(e) **Equity price risk (cont'd)**

Equity price risk sensitivity analysis (cont'd)

| | Profit for the financial periods/years RM |
|---|---|
| **Audited** | |
| **31.12.2017** | |
| FBMKLCI | |
| -Increased by 0.77% | 3,893 |
| -Decreased by 0.77% | (3,893) |
| | |
| STI | |
| -Increased by 1.21% | 21,253 |
| -Decreased by 1.21% | (21,253) |
| | |
| ATX | |
| -Increased by 2.14% | 755 |
| -Decreased by 2.14% | (755) |

### 33.3 Reconciliation of liabilities arising from financing activities

| | Note | 1 January 2020 RM | Cash flows RM | Others RM | 30 September 2020 RM |
|---|---|---|---|---|---|
| **Audited** | | | | | |
| **30.9.2020** | | | | | |
| Interest paid | | - | (60,879) | 60,879* | - |
| Dividends paid | 27 | - | (700,000) | 700,000^ | - |
| Lease liabilities | 18 | 712,743 | (103,033) | 428,738^^ | 1,038,448 |
| Bank borrowings | 17 | 7,069,491 | 177,375^^^ | 2,506,200** | 9,753,066 |
| Total liabilities from financing activities | | 7,782,234 | (686,537) | 3,695,817 | 10,791,514 |

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.3 Reconciliation of liabilities arising from financing activities (cont'd)

| | Note | 1 January 2019 RM | Cash flows RM | Others RM | 30 September 2019 RM |
|---|---|---|---|---|---|
| **Unaudited** | | | | | |
| **30.9.2019** | | | | | |
| Interest paid | | - | (92,154) | 92,154* | - |
| Dividends paid | 27 | - | (660,000) | 660,000^ | - |
| Dividend of subsidiary paid to non-controlling interest | | - | (230,126) | 230,126 | - |
| Lease liabilities | 18 | 457,893 | (111,561) | 442,040^^ | 788,372 |
| Bank borrowings | 17 | 4,953,472 | (68,992)^^^ | - | 4,884,480 |
| Advance to a Director | 11 | (179,923) | (94,113) | - | (274,036) |
| Advance to a shareholder | 12 | (215,146) | 215,146 | - | - |
| Fixed deposits with a licensed financial institution | 13 | (1,160,193) | (27,170) | - | (1,187,363) |
| Total liabilities from financing activities | | 3,856,103 | (1,068,970) | 1,424,320 | 4,211,453 |

| | Note | 1 January 2019 RM | Cash flows RM | Others RM | 31 December 2019 RM |
|---|---|---|---|---|---|
| **Audited** | | | | | |
| **31.12.2019** | | | | | |
| Interest paid | | - | (126,743) | 126,743* | - |
| Dividends paid | 27 | - | (960,000) | 960,000^ | - |
| Dividend of subsidiary paid to non-controlling interest | | - | (232,312) | 232,312^ | - |
| Lease liabilities | 18 | 457,893 | (188,654) | 443,504^^ | 712,743 |
| Bank borrowings | 17 | 4,953,472 | (169,076)^^^ | 2,285,095** | 7,069,491 |
| Advance to a Director | 11 | (179,923) | 179,923 | - | - |
| Advance to a shareholder | 12 | (215,146) | 215,146 | - | - |
| Fixed deposits with a licensed financial institution | 13 | (1,160,193) | 1,160,193 | - | - |
| Total liabilities from financing activities | | 3,856,103 | (121,523) | 4,047,654 | 7,782,234 |

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.3 Reconciliation of liabilities arising from financing activities (cont'd)

| | Note | 1 January 2018 RM | Cash flows RM | Others RM | 31 December 2018 RM |
|---|---|---|---|---|---|
| **Audited** | | | | | |
| **31.12.2018** | | | | | |
| Interest paid | | - | (115,411) | 115,411 * | - |
| Dividends paid | 27 | - | (1,300,000) | 1,300,000 ^ | - |
| Lease liabilities | 18 | 462,697 | (209,304) | 204,500^^ | 457,893 |
| Bank borrowings | 17 | 4,711,151 | 242,321^^^ | - | 4,953,472 |
| Advance to a Director | 11 | - | (179,923) | - | (179,923) |
| Advance to a shareholder | 12 | - | (215,146) | - | (215,146) |
| Fixed deposits with a licensed financial institution | 13 | (1,123,785) | (36,408) | - | (1,160,193) |
| Total liabilities from financing activities | | 4,050,063 | (1,813,871) | 1,619,911 | 3,856,103 |

| | Note | 1 January 2017 RM | Cash flows RM | Others RM | 31 December 2017 RM |
|---|---|---|---|---|---|
| **Audited** | | | | | |
| **31.12.2017** | | | | | |
| Interest paid | | - | (90,156) | 90,156 * | - |
| Dividends paid | 27 | - | (600,000) | 600,000 ^ | - |
| Dividend of subsidiary paid to non-controlling interest | | - | (16,143) | 16,143 ^ | - |
| Lease liabilities | 18 | 433,395 | (168,698) | 198,000^^ | 462,697 |
| Bank borrowings | 17 | 5,121,488 | (410,337)^^^ | - | 4,711,151 |
| Fixed deposits with a licensed financial institution | 13 | (1,091,583) | (32,202) | - | (1,123,785) |
| Total liabilities from financing activities | | 4,463,300 | (1,317,536) | 904,299 | 4,050,063 |

* Being the interest expense for the current financial periods/years.

** Being additional of bank borrowing for purchase of freehold land and building during the financial periods/years.

^ Being dividend paid for the current financial periods/years.

^^ Being additional of finance lease liabilities for purchase of motor vehicles during the financial periods/years.

^^^ Being amount net off between drawdown of bank borrowings and repayment of bank borrowings of the Group amounted to 30.9.2020: RM1,250,000 and RM1,072,625 (30.9.2019: RM1,787,000 and RM1,855,992; 31.12.2019: RM2,307,225 and RM2,476,301; 31.12.2018: RM551,855 and RM309,534 and 31.12.2017: RM9,855 and RM420,192) respectively.

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.4 Fair value of financial instruments

The carrying amounts of short-term receivables and payable, cash and cash equivalents and short-term borrowings, except for term loan and lease liabilities, approximate their fair value due to the relatively short-term nature of these financial instruments and insignificant impact of discounting.

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their values and carrying amounts shown in the combined statements of financial position.

| | Fair value of financial instruments carried at fair value Level 1 RM | Fair value of financial instruments not carried at fair value Level 3 RM | Carrying amount RM |
|---|---|---|---|
| **Audited 30.9.2020** | | | |
| **Financial assets** | | | |
| Investments in equity instruments | - | - | - |
| Other receivables | - | 342,769 | 342,769 |
| **Financial liabilities** | | | |
| Term loan | - | 8,879,066 | 8,879,066 |
| Lease liabilities | - | 1,038,448 | 1,038,448 |
| **Unaudited 30.9.2019** | | | |
| **Financial assets** | | | |
| Investments in equity instruments | 3,038,394 | - | 3,038,394 |
| Other receivables | - | 456,736 | 456,736 |
| **Financial liabilities** | | | |
| Term loan | - | 4,164,480 | 4,164,480 |
| Lease liabilities | - | 788,372 | 788,372 |
| **Audited 31.12.2019** | | | |
| **Financial assets** | | | |
| Investments in equity instruments | 2,822,778 | - | 2,822,778 |
| Other receivables | - | 435,514 | 435,514 |
| **Financial liabilities** | | | |
| Term loan | - | 6,380,491 | 6,380,491 |
| Lease liabilities | - | 712,743 | 712,743 |

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.4 Fair value of financial instruments (cont'd)

The table below analyses financial instruments carried at fair value and those not carried at fair value for which fair value is disclosed, together with their values and carrying amounts shown in the combined statements of financial position (cont'd).

| | Fair value of financial instruments carried at fair value Level 1 RM | Fair value of financial instruments not carried at fair value Level 3 RM | Carrying amount RM |
|---|---|---|---|
| **Audited** | | | |
| **31.12.2018** | | | |
| **Financial assets** | | | |
| Investments in equity instruments | 2,659,728 | - | 2,659,728 |
| Other receivables | - | 545,514 | 545,514 |
| **Financial liabilities** | | | |
| Term loan | - | 4,411,472 | 4,411,472 |
| Lease liabilities | - | 457,893 | 457,893 |
| **Audited** | | | |
| **31.12.2017** | | | |
| **Financial assets** | | | |
| Investments in equity instruments | 2,292,360 | - | 2,292,360 |
| **Financial liabilities** | | | |
| Term loan | - | 4,711,151 | 4,711,151 |
| Lease liabilities | - | 462,697 | 462,697 |

Policy on transfer between levels

The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

Transfers between Level 1 and Level 2 fair values

There has been no transfer between Level 1 and 2 fair values during the financial periods/years (30.9.2019, 31.12.2019, 31.12.2018 and 31.12.2017: no transfer in either direction)

Level 1 fair value

Level 1 fair value is derived from quoted price (unadjusted) in active markets for identical financial assets or liabilities that the entity can access at the measurement date.

Level 3 fair value

The carrying amount of floating rate term loan approximate its fair value as its effective interest rate changes according to movements in the market interest rates.

## 33. FINANCIAL INSTRUMENTS (CONT'D)

### 33.4 Fair value of financial instruments (cont'd)

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as the key unobservable inputs used in the valuation models.

| Type | Description of valuation technique and inputs used |
|---|---|
| Other receivables and lease liabilities | Discounted cash flows using a rate based on the current market rate of borrowing at the reporting date. |

The estimated fair value would decrease if the interest rates were higher.

## 34. CAPITAL MANAGEMENT

Total capital managed at the Group level is the shareholders' funds as shown in the statements of financial position.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit and financially prudent capital rations in order to support its current business as well as future expansion so as to maximise the shareholders' value.

The Group manages its capital structure and makes adjustment to it, in light of changes in economic condition. To maintain and adjust capital structure, the Group may adjust dividend payment to shareholders, return capital to shareholders or issue new shares.

There were no changes in the Group's approach to capital management for the financial periods/years ended.

## 35. EVENTS DURING AND AFTER REPORTING PERIOD

On 11 March 2020, the World Health Organisation declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. On 16 March 2020, the Malaysian Government has imposed the Movement Control Order ("MCO") starting from 18 March 2020 to curb the spread of the COVID-19 outbreak in Malaysia. The COVID-19 outbreak also resulted in travel restriction, lockdown and other precautionary measures imposed in various countries. The emergence of the COVID-19 outbreak since early 2020 has brought significant economic uncertainties in Malaysia and markets in which the Group operate.

The Group are significantly impacted by the COVID-19. As such, the Group have implemented several measures to weather through this current challenging time. These efforts are on-going as the Group continue to seek support from their vendors and business partners to address their cash flow requirements. The following measures had been taken, with further additional efforts to be taken:

***Operations***

The Group have temporary shut down its premises from 18 March 2020 in alignment with the MCO Policy. The Group's operation resumed gradually from early April 2020 with proper Standard Operating Procedures put in place and achieved full operation in early May 2020. The disruption of its operations during the financial year due to MCO and the relevant financial impact has been taken into account in the financial results of the Group.

## 36. EVENT AFTER THE REPORTING PERIOD

The Government of Malaysia has again imposed the Movement Control Order ("MCO") and Conditional Movement Control ("CMCO") for selected states which are severely affected by the novel coronavirus ("COVID 19- pandemic") on 11 January 2021. Besides, the Malaysia King declared state of emergency for the country until 1 August 2021 to curb the spread of Covid-19 on 12 January 2021.

The restrictions imposed have not, however, negatively impacted the Group's financial performance as our main business were allowed to operate throughout the MCO or CMCO, under guidelines set by the National Security Council, Ministry of Health and Ministry of International Trade and Industry respectively.

As at the date of authorisation of the financial statements, the COVID-19 pandemic situation is still evolving and uncertain. The Group will continue to actively monitor and manage its funds and operations to minimise any impact arising from the COVID-19 pandemic.

# FLEXIDYNAMIC HOLDINGS BERHAD
**Registration No.: 201901010656 (1319984-V)**
(Incorporated in Malaysia)

# PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2020

## GRANT THORNTON MALAYSIA PLT

## CHARTERED ACCOUNTANTS

**Member Firm of Grant Thornton International Ltd.**

Grant Thornton

## REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Date: 16 February 2021

**Grant Thornton Malaysia PLT**
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The Board of Directors
**Flexidynamic Holdings Berhad**
A-3A-28, IOI Boulevard
Jalan Kenari 5
Bandar Puchong Jaya
47170 Puchong
Selangor Darul Ehsan

Dear Sirs,

**FLEXIDYNAMIC HOLDINGS BERHAD ("FLEXI" OR "THE COMPANY") AND ITS PROPOSED SUBSIDIARIES ("FLEXI GROUP" OR "THE GROUP")**

**REPORT ON THE COMPILATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION INCLUDED IN A PROSPECTUS ("REPORT")**

We have completed our assurance engagement to report on the compilation of Pro Forma Consolidated Statements of Financial Position of the Group prepared by the Board of Directors of the Company. The Pro Forma Consolidated Statements of Financial Position as at 30 September 2020 together with the accompanying notes thereon, for which we have stamped for the purpose of identification. The Pro Forma Consolidated Statements of Financial Position have been prepared for inclusion in the prospectus of the Company in connection with the listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("Proposed Listing").

The applicable criteria on the basis of which the Board of Directors has compiled the Pro Forma Consolidated Statements of Financial Position are specified in the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines") and described in Note 1.2 to the Pro Forma Consolidated Statements of Financial Position ("Applicable Criteria").

The Pro Forma Consolidated Statements of Financial Position have been compiled by the Board of Directors, for illustrative purposes only, to illustrate the impact of the Proposed Listing on the financial position of the Group as at 30 September 2020 had the Proposed Listing been affected as at 30 September 2020. As part of this process, information about the Group's Consolidated Statements of Financial Position has been extracted by the Board of Directors from the Group audited consolidated financial statements for the financial period ended 30 September 2020 on which an audit report dated 16 February 2021 has been issued.

### The Directors' Responsibility for the Pro Forma Consolidated Statements of Financial Position

The Board of Directors is responsible for compiling the Pro Forma Consolidated Statements of Financial Position on the basis of Applicable Criteria.

**Our Independence and Quality Control**

We are independent 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 of Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Our firm applies *International Standard on Quality Control ("ISQC") 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, by the Board of Directors of the Company on the basis as described in Note 1.2 to the Pro Forma Consolidated Statements of Financial Position.

We conducted our engagement in accordance with *International Standard on Assurance Engagements (ISAE 3420), Assurance Engagements to Report on the Compilation of Pro Forma Financial Information included in a Prospectus*, issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors of the Company have compiled, in all material respects, the Pro Forma Consolidated Statements of Financial Position on the basis as set out in Note 1.2 to the Pro Forma Consolidated Statements of Financial Position.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Consolidated Statements of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Consolidated Statements of Financial Position.

The purpose of Pro Forma Consolidated Statements of Financial Position included in a prospectus is solely to illustrate the impact of significant events or transactions on unadjusted financial information of the Group as if the events had occurred or the transactions had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis of the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the Board of Directors in the compilation of the Pro Forma Consolidated Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Consolidated Statements of Financial Position reflects the proper application of those adjustments to the unadjusted financial information.

GrantThornton

**Reporting Accountants' Responsibilities (cont'd)**

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the Pro Forma Consolidated Statements of Financial Position have been compiled and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statements of Financial Position.

We believe that the evidence we obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:-

(i) The Pro Forma Consolidated Statements of Financial Position of the Group have been properly compiled on the basis as set out in the accompanying notes based on the audited consolidated financial statements of the Group for the financial period ended 30 September 2020 (which have been prepared by the Directors of Flexi Group), and in a manner consistent with both the format of financial statements and the accounting policies adopted by the Group for the financial period ended 30 September 2020 and the adoption of new accounting policy as described in Note 1.2; and

(ii) Each material adjustment made to the information used in the preparation of the Pro Forma Consolidated Statements of Financial Position of the Group is appropriate for the purpose of preparing the Pro Forma Consolidated Statements of Financial Position.

**Other Matter**

This report has been prepared solely for inclusion in the prospectus of the Company, in connection with the Proposed Listing. As such, this report should not be used or relied upon for any other purpose without the prior written consent from us. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Yours faithfully,

**GRANT THORNTON MALAYSIA PLT**
(201906003682 & LLP0022494-LCA)
CHARTERED ACCOUNTANTS (AF 0737)

**LIAN TIAN KWEE**
(NO.: 02943/05/2021 J)
CHARTERED ACCOUNTANT

## FLEXIDYNAMIC HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES

### 1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME

#### 1.1 Pro Forma Group

The Pro Forma Consolidated Statements of Financial Position of Flexidynamic Holdings Berhad ("Flexi" or "the Company") and its proposed subsidiaries (collectively referred to as "Flexi Group" or "the Group") have been prepared for illustration purposes only, by the Board of Directors of the Company for inclusion in the prospectus of the Company to be issued in connection with the Initial Public Offering ("IPO") of 283,891,200 ordinary shares in the Company in conjunction with the listing of and quotation for the entire enlarged issued share capital of Flexi on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities")("Proposed Listing").

#### 1.2 Basis of Preparation

The Pro Forma Consolidated Statements of Financial Position of the Group as at 30 September 2020 have been prepared based on the Group audited consolidated financial statements for the financial period ended 30 September 2020, which was prepared in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and in a manner consistent with both the format of financial statements and the accounting policies adopted by the Group, and the adoption of new accounting policies below.

**Merger method of accounting**

The Pro Forma Consolidated Statements of Financial Position are consolidated using the merger method as these companies are under the common control by the same party both before and after the acquisition of the Group. When the merger method is used, the difference between the cost of investment recorded by Flexi and the share capital of the subsidiaries are accounted for as merger deficit in the Pro Forma Consolidated Statements of Financial Position.

The Group is regarded as a continuing entity resulting from the reorganisation exercise because the management of all the entities within the Group, which participated in the reorganisation exercise was under common control before and immediately after the reorganisation exercise. The Group has applied the merger method of accounting on a retrospective basis and restated its comparative as if the consolidation had taken place before the state of the earliest period presented in the financial statements.

The audited consolidated financial statements of the Group as at 30 September 2020 were not subject to any audit qualification.

The Pro Forma Consolidated Statements of Financial Position, because of its nature, may not reflect the actual financial position of the Group. Further, such information does not predict the future financial position of the Group.

The Pro Forma Consolidated Statements of Financial Position of the Group comprise Pro Forma Statements of Financial Position as at 30 September 2020, adjusted for the impact of the Proposed Listing as set out in Note 1.3 to the Pro Forma Consolidated Statements of Financial Position.

## FLEXIDYNAMIC HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES

1. **PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONT'D)**

1.3 **Listing Scheme**

(a) **Pro Forma I : Acquisition of Flexidynamic Engineering Sdn Bhd (''FESB'')**

Acquisition of FESB

The Company acquired the entire equity interest of FESB for a total purchase consideration of RM20,866,000 to be satisfied via issuance of 208,660,000 new ordinary shares at an issue price of RM0.10 per share.

(b) **Pro Forma II: Public Issue**

The public issue of 75,231,000 new ordinary shares in the Company ("Issue Shares") at IPO price of RM0.20 per Issue Share, representing approximately 26.50% of the enlarged number of shares of the Company. The Issue Shares shall be allocated in the following manner:

(i) 14,195,000 new Issue Shares available to the Malaysian Public;

(ii) 4,258,000 new Issue Shares available for application by our eligible employees and persons who have contributed to the success of our Group; and

(iii) 56,778,000 new Issue Shares by way of private placement to selected investors.

(collectively hereinafter referred to as "Public Issue")

(c) **Pro Forma III: Utilisation of Proceeds**

The gross proceeds from the IPO of RM15,046,200 are expected to be utilised as follows:

| **Details of utilisation** | **Estimated timeframe for utilisation** | **RM** | **%** |
|---|---|---|---|
| Acquisition of new factories* | 12 months(1) | 6,800,000 | 45.20% |
| Acquisition of machinery and equipment | 3 months(2) | 1,630,000 | 10.83% |
| Working capital | 24 months(1) | 3,616,200 | 24.03% |
| Estimated listing expenses# | 1 months(1) | 3,000,000 | 19.94% |
| **Total estimated proceeds** | | 15,046,200 | 100.00% |

(1) From the date of listing of Flexi shares.
(2) From the estimated completion of construction and handover of new factories in May 2021.

Notes:
* The Group plans to allocate a total of RM6.80 million from the IPO proceeds to repay the bank borrowing amounting to RM6.38 million and the balance of RM0.42 million to fund the renovation of new factories.

# The total estimated listing expenses is RM3.00 million of which RM1.19 million has been paid as deposits and recognised in other receivables account. The said deposits will be subsequently set-off against share capital account and/or charged out to profit or loss account upon completion of IPO. The apportionment of estimated listing expenses is disclosed in Notes 3.4 and 3.6 to the Pro Forma Consolidated Statements of Financial Position.

## FLEXIDYNAMIC HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES

1. **PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (CONT'D)**

1.4 **Auditors of Flexi Group**

The Auditors of the audited financial statements of Flexi Group for the financial period ended 30 September 2020 are as follows:

| **Company** | **Auditors** |
|---|---|
| Flexidynamic Holdings Berhad | Grant Thornton Malaysia PLT |
| **Subsidiary of the Company** | |
| Flexidynamic Engineering Sdn Bhd | Grant Thornton Malaysia PLT |
| **Subsidiary of Flexidynamic Engineering Sdn Bhd** | |
| Flexidynamic Engineering Company Limited | Grant Thornton Limited |

The audited financial statements of Flexidynamic Holdings Berhad for the financial period ended 30 September 2020 were not subject to any qualification or modification.

## 13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(Cont'd)*

### FLEXIDYNAMIC HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES

### 2. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2020

The Pro Forma Consolidated Statements of Financial Position ("SOFP") as at 30 September 2020 has been prepared for illustrative purposes only to show the effects on Flexidynamic Holdings Group as at 30 September 2020 based on the Listing Scheme as set out in Note 1.3 to the Pro Forma Consolidated Statements of Financial Position had the events and transactions been effected on 30 September 2020, and should be read in conjunction with notes accompanying to the Pro Forma Consolidated Statements of Financial Position.

| | | Statement of Financial Position at 30 September 2020 RM | Adjustments for Acquisition RM | Pro forma I After Acquisition RM | Adjustments for Public Issue RM | Pro forma II After Pro forma I and Public Issue RM | Adjustments for Utilisation of Proceeds RM | Pro forma III After Pro forma II and Utilisation of Proceeds RM |
|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | |
| **NON-CURRENT ASSETS** | | | | | | | | |
| Property, plant and equipment | 3.1 | - | 15,274,192 | 15,274,192 | - | 15,274,192 | 3,646,600 | 18,920,792 |
| Deferred tax assets | | - | 2,888,549 | 2,888,549 | - | 2,888,549 | - | 2,888,549 |
| Other receivables | | - | 189,528 | 189,528 | - | 189,528 | - | 189,528 |
| Total non-current assets | | - | 18,352,269 | 18,352,269 | - | 18,352,269 | 3,646,600 | 21,998,869 |
| **CURRENT ASSETS** | | | | | | | | |
| Inventories | | - | 4,806,628 | 4,806,628 | - | 4,806,628 | - | 4,806,628 |
| Trade receivables | | - | 22,906,700 | 22,906,700 | - | 22,906,700 | - | 22,906,700 |
| Other receivables | 3.2 | - | 1,819,158 | 1,819,158 | - | 1,819,158 | (1,188,132) | 631,026 |
| Cash and bank balances | 3.3 | 20 | 11,826,986 | 11,827,006 | 15,046,200 | 26,873,206 | (10,241,868) | 16,631,338 |
| Total current assets | | 20 | 41,359,472 | 41,359,492 | 15,046,200 | 56,405,692 | (11,430,000) | 44,975,692 |
| **TOTAL ASSETS** | | 20 | 59,711,741 | 59,711,761 | 15,046,200 | 74,757,961 | (7,783,400) | 66,974,561 |
| **EQUITY AND LIABILITIES** | | | | | | | | |
| **EQUITY** | | | | | | | | |
| Share capital | 3.4 | 20 | 20,866,000 | 20,866,020 | 15,046,200 | 35,912,220 | (600,000) | 35,312,220 |
| Merger deficit | 3.5 | - | (20,116,956) | (20,116,956) | - | (20,116,956) | - | (20,116,956) |
| Capital reserve | | - | 631,154 | 631,154 | - | 631,154 | - | 631,154 |
| Foreign exchange reserve | | - | 7,528 | 7,528 | - | 7,528 | - | 7,528 |
| (Accumulated losses)/Retained earnings | 3.6 | (5,122) | 21,789,619 | 21,784,497 | - | 21,784,497 | (2,400,000) | 19,384,497 |
| Equity attributable to equity holders of the Company | | (5,102) | 23,177,345 | 23,172,243 | 15,046,200 | 38,218,443 | (3,000,000) | 35,218,443 |
| Non-controlling interest | | - | (76,533) | (76,533) | - | (76,533) | - | (76,533) |
| **TOTAL EQUITY** | | (5,102) | 23,100,812 | 23,095,710 | 15,046,200 | 38,141,910 | (3,000,000) | 35,141,910 |

## FLEXIDYNAMIC HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES

## 2. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2020 (CONT'D)

The Pro Forma Consolidated Statements of Financial Position ("SOFP") as at 30 September 2020 has been prepared for illustrative purposes only to show the effects on Flexidynamic Holdings Group as at 30 September 2020 based on the Listing Scheme as set out in Note 1.3 to the Pro Forma Consolidated Statements of Financial Position had the events and transactions been effected on 30 September 2020, and should be read in conjunction with notes accompanying to the Pro Forma Consolidated Statements of Financial Position (cont'd).

| | | Statement of Financial Position at 30 September 2020 RM | Adjustments for Acquisition RM | Pro forma I After Acquisition RM | Adjustments for Public Issue RM | Pro forma II After Pro forma I and Public Issue RM | Adjustments for Utilisation of Proceeds RM | Pro forma III After Pro forma II and Utilisation of Proceeds RM |
|---|---|---|---|---|---|---|---|---|
| **LIABILITIES** | | | | | | | | |
| **NON-CURRENT LIABILITIES** | | | | | | | | |
| Borrowings | 3.7 | - | 8,622,643 | 8,622,643 | - | 8,622,643 | (4,783,400) | 3,839,243 |
| Lease liabilities | | - | 751,178 | 751,178 | - | 751,178 | - | 751,178 |
| Total non-current liabilities | | - | 9,373,821 | 9,373,821 | - | 9,373,821 | (4,783,400) | 4,590,421 |
| **CURRENT LIABILITIES** | | | | | | | | |
| Trade payables | | - | 8,916,377 | 8,916,377 | - | 8,916,377 | - | 8,916,377 |
| Other payables and accruals | | 5,122 | 610,846 | 615,968 | - | 615,968 | - | 615,968 |
| Contract liabilities | | - | 13,001,915 | 13,001,915 | - | 13,001,915 | - | 13,001,915 |
| Borrowings | | - | 1,130,423 | 1,130,423 | - | 1,130,423 | - | 1,130,423 |
| Lease liabilities | | - | 287,270 | 287,270 | - | 287,270 | - | 287,270 |
| Tax payables | | - | 3,290,277 | 3,290,277 | - | 3,290,277 | - | 3,290,277 |
| Total current liabilities | | 5,122 | 27,237,108 | 27,242,230 | - | 27,242,230 | - | 27,242,230 |
| **TOTAL LIABILITIES** | | 5,122 | 36,610,929 | 36,616,051 | - | 36,616,051 | (4,783,400) | 31,832,651 |
| **TOTAL EQUITY AND LIABILITIES** | | 20 | 59,711,741 | 59,711,761 | 15,046,200 | 74,757,961 | (7,783,400) | 66,974,561 |
| Number of shares in issue (unit) | 3.4 | 200 | 208,660,000 | 280,660,200 | 75,231,000 | 283,891,200 | | 283,891,200 |
| Net (liability)/asset per share (RM) | | (25.51) | | 0.11 | | 0.13 | | 0.12 |
| Borrowings (RM) | | - | | 10,791,514 | | 10,791,514 | | 6,008,114 |
| Gearing (times)[1] | | - | | 0.47 | | 0.28 | | 0.17 |

Notes:
[1] Calculated based on the total borrowings (i.e. lease liabilities and bank borrowings) of our Group divided by the total equity of our Group.

**FLEXIDYNAMIC HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES**

## 3. NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

### 3.1 Property, Plant and Equipment

The movements of the property, plant and equipment are as follows:

| | Amount RM |
|---|---|
| As at 30 September 2020 | - |
| Pursuant to Acquisition of FESB | 15,274,192 |
| As per Pro Forma I and II | 15,274,192 |
| Estimated additional drawdown of bank borrowings | 1,594,600 |
| Renovations on new factories | 422,000 |
| Acquisition of machinery and equipment | 1,630,000 |
| As per Pro Forma III | 18,920,792 |

### 3.2 Other receivables – Current

The movements of the other receivables are as follows:

| | Amount RM |
|---|---|
| As at 30 September 2020 | - |
| Pursuant to Acquisition of FESB | 1,819,158 |
| As per Pro Forma I and II | 1,819,158 |
| Estimated listing expenses | (1,188,132) |
| As per Pro Forma III | 631,026 |

**FLEXIDYNAMIC HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES**

**3. NOTES TO THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

**3.3 Cash and Bank Balances**

The movements of the cash and bank balances are as follows:

| | Amount RM |
|---|---|
| As at 30 September 2020 | 20 |
| Pursuant to Acquisition of FESB | 11,826,986 |
| As per Pro Forma I | 11,827,006 |
| Pursuant to Public Issue | 15,046,200 |
| As per Pro Forma II | 26,873,206 |
| Estimated repayment of bank borrowings | (6,378,000) |
| Renovations on new factories | (422,000) |
| Acquisition of machinery and equipment | (1,630,000) |
| Estimated listing expenses | (1,811,868) |
| As per Pro Forma III | 16,631,338 |

**3.4 Share Capital**

The movements of the issued share capital are as follows:

| | No. of Shares | Amount RM |
|---|---|---|
| As at 30 September 2020 | 200 | 20 |
| Pursuant to issuance of share for the Acquisition of FESB | 208,660,000 | 20,866,000 |
| As per Pro Forma I | 208,660,200 | 20,866,020 |
| Pursuant to Public Issue | 75,231,000 | 15,046,200 |
| As per Pro Forma II | 283,891,200 | 35,912,220 |
| Pursuant to Utilisation of Proceeds from IPO* | - | (600,000) |
| | 283,891,200 | 35,312,220 |

*The estimated listing expenses totaling RM3,000,000 comprise brokerage, underwriting and placement fees, professional fees and miscellaneous expenses. The allocation of listing expenses to share capital of RM600,000 comprise of incremental costs that are directly attributable to issuing of new shares and apportionment of cost that are relates to shares issuance and listing on the proportion of new shares issued to the total number of enlarged share capital after IPO.

## FLEXIDYNAMIC HOLDINGS BERHAD AND ITS PROPOSED SUBSIDIARIES

## 3. NOTES TO THE PRO FORMA CONSOLIDATE STATEMENTS OF FINANCIAL POSITION (CONT'D)

### 3.5 Merger Deficit

The movements of the merger deficit are as follows:

| | Amount RM |
|---|---|
| As at 30 September 2020 | - |
| Pursuant to Acquisition of FESB | (20,116,956) |
| As per Pro Forma I, II and III | (20,116,956) |

### 3.6 (Accumulated losses)/Retained Earnings

The movements of the (accumulated losses)/retained earnings are as follows:

| | Amount RM |
|---|---|
| As at 30 September 2020 | (5,122) |
| Pursuant to Acquisition of FESB | 21,789,619 |
| As per Pro Forma I and II | 21,784,497 |
| Estimated listing expenses* | (2,400,000) |
| As per Pro Forma III | 19,384,497 |

*The estimated listing expenses totaling RM3,000,000 comprise brokerage, underwriting and placement fees, professional fees and miscellaneous expenses. The allocation of RM2,400,000 of listing expenses of retained earnings comprise of cost that relate to the stock market listing which are neither incremental nor directly attributable to issuing of new shares.

### 3.7 Borrowings – Non-current

The movements of the borrowings are as follows:

| | Amount RM |
|---|---|
| As at 30 September 2020 | - |
| Pursuant to Acquisition of FESB | 8,622,643 |
| As per Pro Forma I and II | 8,622,643 |
| Estimated additional drawdown of bank borrowings | 1,594,600 |
| Estimated repayment of bank borrowings | (6,378,000) |
| As per Pro Forma III | 3,839,243 |

## 14. STATUTORY AND OTHER INFORMATION

### 14.1 SHARE CAPITAL

(a) As at the date of this Prospectus, we only have 1 class of shares, namely, ordinary shares, all of which rank equally with one another. There are no special rights attached to our Shares.

(b) Save for 4,258,000 Shares under the Pink Form Allocations as disclosed in Sections 4.4.1(b),

(i) no Director, employee or business associate of our Group has been or is entitled to be given or has exercised any option to subscribe for any share of our Company or our subsidiaries; and

(ii) there is no scheme involving the employees of our Group in the shares of our Company or our subsidiaries.

(c) Save for the new Shares issued and to be issued pursuant to the Acquisition of Flexidynamic Engineering, the Public Issue as disclosed in Sections 6.2.2 and 4.4.1 respectively and the 200 Shares subscribed by Kong Wui Chung and Au Chee Wah, no shares of our Company or our subsidiary have been issued or are proposed to be issued as fully or partly paid-up, in cash or otherwise, within the past 2 years immediately preceding the date of this Prospectus.

(d) Other than our Public Issue as disclosed in Section 4.4.1, there is no intention on the part of our Directors to further issue any Shares.

(e) As at the date of this Prospectus, we do not have any outstanding convertible debt securities.

### 14.2 CONSTITUTION

The following provisions are extracted from our Company's Constitution. Terms defined in our Constitution shall have the same meanings when used here unless they are otherwise defined here or the context otherwise requires. The following provisions extracted from our Company's Constitution are based on the current Listing Requirements and the Act.

**(1) Remuneration, voting and borrowing power of Directors**

The provisions in our Constitution dealing with remuneration, voting and borrowing power of Directors are as follows:

**Article 100 - Directors' remuneration**

The fees any benefits payable to the Directors from time to time, be subject to annual shareholder approval at general meeting and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree, except that any Director, who shall hold office for part only of period in respect of which such fees are payable, shall be entitled only to rank in such division for proportion of the fees related to the period during which he has held office, PROVIDED ALWAYS that:

(i) Fees payable to non-executive Directors shall be by a fixed sum, and not by a commission on or percentage of profits or turnover. Salaries payable to executive Directors may not include a commission on or percentage of turnover.

(ii) The fees of Directors, and any benefits payable to Directors shall be subject to annual shareholders' approval at a general meeting

(iii) Salaries payable to executive Directors shall not include a commission on or percentage of turnover.

(iv) Any fee paid to an alternate Director shall be agreed upon between himself and the Director nominating him and shall be paid out of the remuneration of that Director.

**Article 101 - Reimbursement of expenses**

The Directors shall also be paid such travelling, hotel and other expenses properly and reasonably incurred by them in the execution of their duties including any such expenses incurred in connection with their attendance at 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 as the Directors may determine.

**Article 113 - Director may act in his professional capacity**

Any Director may act by himself or his firm in a professional capacity for the Company, and he or his firm shall be entitled to remuneration for professional services as if he were not a Director providing that nothing herein contained shall authorise a Director or his firm to act as Auditor of the Company.

**Article 126 – Alternate Director**

(i) A director may appoint a person to act as his alternate provided that:

    (a) Such person is not a director of the Company;

    (b) Such person does not act as an alternate for more than one Director of the Company;

    (c) The appointment is approved by a majority of the other members of the Board; and

    (d) Any fee paid by the Company to the alternate shall be deducted from that Director's remuneration.

(ii) Any appointment of an Alternate Director may be revoked at any time by the Director appointing him.

(iii) If a Director making any such appointment as aforesaid shall cease or vacate office as a Director, the person appointed by him shall thereupon, ipso facto cease to have any power or authority to act as an Alternate Director except retirement by rotation and immediate re- election.

(iv) An alternate Director shall (except as regards power to appoint an alternate Director and remuneration) be subject in all respects to the terms and conditions existing with reference to the other Directors and shall be entitled to receive notices of all meetings of the Directors and to attend, speak and vote at any such meeting at which his appointor is not present.

(v) An Alternate Director shall not be taken into account in reckoning the minimum or maximum number of Directors allowed for the time being but shall be counted for the purpose of reckoning whether a quorum is present at any meeting of the Directors attended by him at which he is entitled to vote.

(vi) The alternate Director shall be entitled to notices of all meetings and to attend, speak and vote at any such meeting at which his appointor is not present. Any appointment so made may be revoked at any time by the appointor and any appointment or revocation under this Constitution shall be effected by notice in writing to be delivered to the Secretary of the Company. An alternate Director shall ipso facto cease to be an alternate Director if his appointor for any reason ceases to be a Director.

**Article 131 – Power of Directors to establish Committees, etc**

The Directors may establish any committees, local boards or agencies, comprising one or more persons for managing any of the affairs of the Company, either in Malaysia or elsewhere, and may lay down, vary or annul such rules and regulations as they may think fit for the conduct of the business thereof, and may appoint any person or persons to be the Member and Members of any such committee or local board or agency and may fix their remuneration and may delegate to any such committee or local board or agency any of the powers, authorities and discretions vested in the Directors, with power to sub-delegate, and may authorise the Member or Members of any such committee or local board or agency or any of them, to fill any vacancies therein, and to act notwithstanding vacancies, and any such appointment or delegation may be made upon such terms and subject to such conditions as the Directors may think fit, and the Directors may remove any person so appointed, and may annul any such delegation but no persons dealing in good faith and without notice of any such annulment or variation shall be affected thereby.

**Article 106 – Power to maintain Pension or Fund**

The Directors may establish or arrange any contributory or non- contributory pension superannuation scheme for the benefit of, or pay a gratuity, pension or emolument to any person who is or has been employed by or in the service of the Company or any subsidiary of the Company, or to any person who is or has been a Director or other officer of and holds or has held salaries employment in the Company or any such subsidiary, and the widow, family or dependents of any such person. The Directors may also subscribe to any association or fund which they consider to be for the benefit of the Company or any such subsidiary or any such persons as aforesaid and make payments for or towards any hospital or scholastic expenses and make payment for or towards any hospital or any Director holding such salaries employment shall be entitled to retain any benefit received by him hereunder subject only, where the Act requires, to proper disclosure to the Members and the approval of the Company in general meeting.

**Article 105 – Directors' borrowing powers**

(i) The Directors may exercise all the powers of the Company to borrow any sum or sums of money from any person, bank, firm or company (expressly including any person holding the office of Director) and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof, and to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company, or its wholly owned subsidiaries or of any related or associated corporation. The Directors may guarantee the whole or any part of the loans or debts raised or incurred by or on behalf of the Company or any interest payable thereon with power to the Directors to indemnify the guarantors from or against liability under their guarantees by means of a mortgage or hypothecation of or charge upon any property and asset of the Company or otherwise. The Directors may exercise all the powers of the Company to guarantee and give guarantees or indemnities for the payment of money, the performance of contracts or obligations, or for the benefit or interest of the Company or of any subsidiary corporation.

(ii) The Directors shall not borrow any money or mortgage or charge any of the Company's or the subsidiaries' undertaking, property, or any uncalled capital, or to issue debentures and other securities whether outright or as security for any debt, liability or obligation of an unrelated third party.

(iii) The Directors shall cause a proper register to be kept in accordance with the Act of all mortgages and charges specifically affecting the property of the Company and shall duly comply with the requirements of the Act in regard to the registration of mortgages and charges therein specified or otherwise.

**Article 120 – Disclosure of interest**

Every Director shall comply with the provisions of the Act in connection with the disclosure of his shareholding and interests in the Company and his interest in any contract or proposed contract with the Company and in connection with the disclosure of the fact and the nature, character and extent of any office or possession of any property whereby whether directly or indirectly duties or interest might be created in conflict with his duty of interest as a Director of the Company. No Director shall as a Director vote in respect of any contract or arrangement in which he is so interested, and, if he does so vote, his vote shall not be counted.

**Article 121 – Restriction on voting**

A Director shall not vote in regard to any contract or proposed contract or arrangement in which he has, directly or indirectly an interest.

**Article 122 – Relaxation of restriction of voting**

A Director notwithstanding his interest may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any office or place of profit under the Company or whereat the terms of any such appointment are considered, he may vote on any such matter other than in respect of his own appointment and/or the fixing of the terms thereof.

**Article 123 – Power to vote**

A Director may vote in respect of:

(i) Any arrangement for giving the Director himself or any other Director for any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the Company; or

(ii) Any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company for which the Director himself or any other Director has assumed responsibility in whole or in part under a guarantee or indemnity or by deposit of a security.

**Article 124 – Directors may become Directors of other corporation**

A Director of the Company may be or become a director or other officer of or otherwise interested in any corporation promoted by the Company or in which the Company may be interested as shareholder or otherwise or any corporation, which is directly or indirectly interested in the Company as shareholder or otherwise and no such Director shall be accountable to the Company for any remuneration or other benefit received by him as a director or officer of, or from his interest in, such corporation unless the Company otherwise directs at the time of his appointment. The Directors may exercise the voting power conferred by the shares or other interest in any such other corporation held or owned by the Company, or exercisable by them as Directors of such other corporation in such manner and in all respects as they think fit (including the exercise thereof in favour of any resolution appointing themselves or any of the Directors or other officers of such corporation) and any Director may vote in favour of the exercise of such voting rights in manner aforesaid, notwithstanding that he may be or is about to be appointed a director or other officer of such corporation and as such is or may become interested in the exercise of such voting rights in manner aforesaid.

**(2) Changes to Share Capital**

The provisions in our Constitution dealing with changes to share capital and variation of class rights are as follows:

**Article 3 - Share capital**

The share capital of the Company is its issued share capital which shall be in Ringgit Malaysia. The shares in the original or any increased capital may be divided into several classes and there may be attached thereto, respectively, any preferential, deferred, qualified or other special rights, privileges, conditions or restrictions as to dividend, capital, voting or otherwise.

**Article 4 - Authority of Directors to allot shares**

Without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, and subject to the provisions of the Constitution, the Act, the Central Depositories Act and to the provisions of any resolution of the Company, shares in the Company may be issued by the Directors, who may allot or otherwise dispose of such shares to such persons on such terms and conditions with such (whether in regard to dividend, voting or return of capital) preferred, deferred or other special rights, and subject to such restrictions and at such time or times as the Directors may think fit but the Directors in making any issue of shares shall comply with the following conditions:

(i) In the case of shares, other than ordinary shares, no special rights shall be attached until the same have been expressed in the Constitution or in the resolution creating the same;

(ii) No issue of shares shall be made which will have the effect of transferring a controlling interest in the Company to any person, company or syndicate without the prior approval of the Members in general meeting; and

(iii) Every Share Issuance Scheme for employees and/or Directors shall be approved by the members in general meeting and in relation to a Director such approval shall specifically detail the amount of shares or options to be issued to such Director and such Director has abstained from voting on the relevant resolution.

**Article 55 - Offer of unissued shares**

Subject to any direction to the contrary that may be given by the Company in general meeting any shares or securities from time to time to be created shall before they are issued be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares or securities to which they are entitled. The offer shall be made by notice specifying the number of shares or securities offered and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares or securities offered the Directors may dispose of those shares or securities in such manner as they think most beneficial to the Company. The Directors may in like manner dispose any such new shares or securities as aforesaid which, by reason of the ratio borne by them to the number of shares or securities held by persons entitled to such offer of new shares or securities cannot, in the opinion of the Directors be conveniently offered in the manner herein provided.

**Article 7 – Repayment of preference capital**

Notwithstanding Article 9 hereof the repayment of preference share capital other than redeemable preference shares or any alteration of preference shareholder 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 special resolution is not obtained at the meeting, consent in writing obtained from the holders of three-fourths (3/4) of the preference shares concerned within two (2) months of the meeting shall be as valid and effectual as a special resolution carried at the meeting.

**Article 9 - Modification of class rights**

Whenever the capital of the Company is divided into different classes of shares or groups the special rights attached to any class or group may subject to the provisions of the Constitution (unless otherwise provided by the terms of issue of the shares of the class), either with the consent in writing of the holders of three-quarters (3/4) of the issued shares of the class or group, or with the sanction of any special resolution passed at a separate general meeting of such holders (but not otherwise), be modified or abrogated, and may be so modified or abrogated either whilst the Company is a going concern or during or in contemplation of a winding up, and such writing or resolution shall be binding upon all the holders of shares of the class. To every such separate general meeting all the provisions of this Constitution relating to general meetings or to the proceedings thereat shall, mutatis mutandis, apply, except that the necessary quorum shall be two persons at least holding or representing by proxy one-tenth (1/10) in nominal amount of the issued shares of the class or group (but so that if an adjourned meeting of such holders a quorum as above defined is not present those Members who are present shall be a quorum), that any holder of shares in the class present in person or by proxy may demand a poll and that the holders of shares of the class or group shall, on a poll, have one vote in respect of every share of the class or group held by them respectively.

**Article 10 - Ranking of class rights**

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or in all respects pari passu therewith but in no respect in priority thereto.

**Article 11 - Commission on subscription of shares**

The Company may exercise the powers of paying commissions conferred by the Act to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally or procuring or agreeing to procure subscriptions, whether absolute or conditional for any shares in the Company provided that the rate per cent or the amount of the commission paid or agreed to be paid shall be disclosed in the manner required by the Act and the commission shall not exceed the rate of ten per cent (10%) of the price at which the shares in respect whereof the same is paid are issued or an amount equal to ten per cent (10%) of that price (as the case may be) and that the requirements of the Act shall be observed. Subject to the provisions of the Act, such commission may be satisfied by the payment of cash or the allotment of fully or partly paid shares or partly in one way and partly in the other. The Company may also on any issue of shares pay such brokerage as may be lawful.

**Article 13 - Trusts not to be recognised**

Except as required by law, no person shall be recognised by the Company as holding any share upon any trust, and the Company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or unit of share or (except only as by this Constitution or by law or by the Rules otherwise provided) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.

**Article 58 - Power to alter capital**

The Company may by special resolution:

(i) Consolidate and divide all or any of its share capital into shares of larger amounts than its existing shares; or

(ii) Divide its share capital or any part thereof into shares of smaller amount than is fixed by the Constitution by subdivision of its existing shares or any of them subject nevertheless to the provisions of the Act and so that as between the resulting shares, one or more of such sub-division is effected, be given any preference or advantage as regards dividend, return of capital, voting or otherwise over the other or any other of such shares; or

(iii) Cancel any shares which at the date of the passing of the resolution in that behalf have not been taken, agreed to be taken by any persons or shares which have been forfeited and diminish the amount of its share capital by the amount of the shares so cancelled.

(iv) Subject to the provisions of this Constitution and the Act, convert and/or re-classify any class of shares into any other class of shares.

**Article 14 - Purchase of own shares**

Subject to the provisions of the Act and the Listing Requirements and the approval of the Members and any other relevant authority, if applicable, the Company shall have the power to purchase its own shares and to deal with the shares so purchased in the manner provided by the Act and the Listing Requirements or guidelines issued by the Exchange and/or any other relevant authority from time to time.

The provisions of Articles 58 and 59 hereof shall not affect the power of the Company to cancel any shares or reduce its share capital pursuant to any exercise of the Company's powers under this Article.

**Article 59 - Power to reduce capital**

The Company may by special resolution reduce its share capital and any capital redemption reserve fund in any manner subject to any conditions and any consent required by law. The Company shall give notice to the Registrar in accordance with Section 84 of the Act of such alteration in capital.

**(3) Transfer of securities**

**Article 29 – Transfer of securities**

The transfer of any listed security or class of listed security of the Company, shall be by way of book entry by the Depository in accordance with the Rules of the Depository and, notwithstanding sections 105, 106 or 110 of the Act, but subject to section 148(2) of the Act and any exemption that may be made from compliance with section 148(1) of the Act the Company shall be precluded from registering and effecting any transfer of the listed securities.

**Article 32 - Refusal to register transfer**

The Directors may decline to effect the registration of any transfer of shares if such shares are not fully paid up or the Company has a lien on them or otherwise if the transfer does not comply with the provisions of the Act, the Central Depositories Act and the Rules.

**Article 36 - Death of Member**

In the case of the death of a Member, the survivor or survivors where the deceased was a joint holder, and the legal representatives of the deceased where he was a sole holder, shall be the only persons recognised by the Company as having any title to his interest in the shares but nothing herein contained shall release the estate of a deceased joint holder from any liability in respect of any share which had been jointly held by him with other persons.

**Article 37 - Share of deceased or bankrupt Member**

In the event of the death or bankruptcy of a Member, any person becoming entitled as a result thereof may transfer or be registered as the owner of the shares held by that Member before his death or bankruptcy or otherwise deal with the said shares in the manner allowed by law and in accordance with the Rules. The person so entitled shall notify the Depository accordingly in writing of his election whether to have the shares of the deceased or bankrupt Member to be registered under his name or otherwise to be transferred to another person and shall comply with the Rules affecting the registration and transfer of the said shares, as the case may be.

**Article 39 - Transmission of Securities**

Where:

(i) The securities of the Company are listed on another stock exchange; and

(ii) The Company is exempted from compliance with section 14 of the Central Depositories Act or Section 29 of the Securities Industry (Central Depositories) (Amendment) Act 1998, as the case may be, under the Rules of the Depository 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.

**(4) Rights, preferences and restrictions attached to each class of securities relating to voting, dividend, liquidation and any special rights**

The provisions in our Constitution dealing with rights, preferences and restrictions attached to each class of securities relating to voting, dividend, liquidation and any special rights are as follows:

**Article 57 - New shares to rank with original shares**

Except so far as otherwise provided by the conditions of issue, any capital raised by the creation of new shares shall be considered as part of the original share capital of the Company and shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transaction, forfeiture and otherwise as the original share capital and shall also be subject to the Rules.

**Article 6 - Rights of preference shareholders**

Subject to the Act, any preference shares may with the sanction of a special 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 without the consent of the existing preference shareholders at a class meeting issue further preference shares ranking in priority above preference shares already issued but may issue preference shares ranking equally therewith.

Preference shareholders shall have the same rights as ordinary shareholders as regards receiving notices, reports and audited financial statements, and attending general meetings of the Company.

Preference shareholders must be entitled to a right to vote in each of the following circumstances:

(i) When the dividend or part of the dividend on the preference shares 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 rights attached to the share;

(v) On a proposal to wind up the Company; and

(vi) During the winding up of the Company.

**Article 38 - Person entitled may receive dividends**

A person entitled to a share by reason of the death or bankruptcy of a Member shall be entitled to and may give a good discharge for, any dividend or other distribution in respect of the said share except that he shall not be entitled to receive notice of or to attend or vote at, meetings of the Company until and unless he has been duly registered in the Record of Depositors. The Directors may at any time give notice in writing requiring any such person to elect whether to transfer the share to himself or to another person and to comply with the Rules and any other applicable law in relation thereto and if such person fails or refuses to do so to the satisfaction of the Directors, the dividend payment or any other distribution in respect of the said share shall subject to law be withheld until the requirements of the notice have been complied with. Where two (2) or more persons are jointly entitled to any share in consequence of the death of a Member, they shall, for the purposes of this Constitution, be deemed to be joint holders of the share.

**Article 52 – Participant in dividends and profits**

The holders of stock 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, but no such right, privileges 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 aliquot part of stock which would not, if existing in shares, have conferred that right, privilege or advantage

**Article 64 - Record of Depositors**

(i) The Company shall request the Depository in accordance with the Rules of the Depository, to issue a Record of Depositors to whom notices of general meetings shall be given by the Company.;

(ii) The Company shall also request the Depository in accordance with the Rules of the Depository, to issue a Record of Depositors, as at the latest date which is reasonably practicable which shall in any event be not less than 3 market days before the general meeting ("General Meeting Record of Depositors").

(iii) Subject to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 (where applicable), a depositor shall not be regarded as a member entitled to attend any general meeting and to speak and vote thereat unless his name appears in the General Meeting Record of Depositors.

The Record of Depositors shall be the final and conclusive record for the purposes of determining the Depositors who shall be deemed to be the registered holders of the shares of the Company and thus eligible to attend the general meeting and to speak and vote there at.

**Article 75 - Evidence of passing resolutions**

At any general meeting a resolution put to the vote of the meeting resolutions shall be determined by poll. A poll shall be taken in such manner and either forthwith or after an interval or adjournment or otherwise as the Chairman directs and the result of the poll shall be the resolution of the meeting at which the poll was taken. The Company shall appoint at least one (1) scrutineer for the purposes of a poll in accordance with the Listing Requirements, and may, in addition to the power of adjourning meetings contained in Article 74 hereof adjourn the meeting to some place and time fixed for the purpose of declaring the result of the poll.

**Article 78 – Voting rights and Time for objection**

(i) Subject to the Constitution and to any rights or restrictions for the time being attached to any shares or classes of shares, at meetings of Members or classes of Members, each Member entitled to vote may vote in person or by proxy or by attorney. On a resolution to be decided by a poll, every Member voting in person or by proxy or by attorney shall have one (1) vote on a show of hands.

(ii) On a resolution to be decided on a show of hands, a holder of an ordinary share, and a holder of a preference share who has a right to vote shall be entitled to 1 vote.

(iii) A proxy shall be entitled to vote on a show of hands on any question at any general meeting, provided that he is the only proxy appointed by the member. There shall be no restriction as to the qualification to the proxy. A proxy appointed to attend and vote at a meeting of the Company shall have the same right as the member to speak at the meeting.

(iv) No objection shall be raised to the qualification of any voter except at the meeting or adjourned meeting at which the vote objected to is given or tendered and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman of the meeting whose decision shall be final and conclusive.

**Article 80 - Shares of different monetary denominations**

Where the capital of the Company consists of shares of different monetary denominations, voting rights shall be prescribed in such a manner that a unit of capital in each class, when reduced to a common denominator, shall carry the same voting power when such rights is exercisable.

**Article 82 - Vote of Member of unsound mind**

A Member who is of unsound mind or whose person or estate is liable to be dealt with any way under the law relating to mental disorder may vote by his committee or by such other person as properly as the management of his estate, and any such committee or other person may vote by proxy or attorney and any person entitled under the transmission Constitution to transfer any shares may vote at any general meeting in respect thereof in the same manner as if he was the registered holder of such shares provided that forty-eight (48) hours at least before the time of holding the meeting or adjourned meeting as the case may be at which he propose to vote, he shall satisfy the Directors of his right to transfer such shares unless the Directors shall have previously admitted his right to vote at such meeting in respect thereof.

**Article 83 - Member barred from voting while call unpaid**

No member shall be entitled to be present or to vote on any question either personally or otherwise as proxy or attorney at any general meeting or appoint a proxy or be reckoned in the quorum in respect of any shares upon which calls are due and unpaid.

**Article 87 - Validity of vote given under proxy**

A vote given in accordance with the terms of an instrument of proxy or attorney shall be valid, notwithstanding the previous death or unsoundness of mind of the principal or revocation of the instrument or of the authority under which the instrument was executed, or the transfer of the share in respect of which the instrument is given, if no intimation in writing of such death, unsoundness of mind, revocation or transfer as aforesaid has been received by the Company at the Office before the commencement of the meeting or adjourned meeting at which the instrument is used.

**Article 88 – Corporate Representative**

A corporation may by resolution of its directors or other governing body, if it is a Member of the Company, authorize such person as he thinks fit to act as its representative either at a particular meeting or at all meetings of the Company or of any class of Member, and a person so authorised shall in accordance with his authority and until authority is revoked by the corporation be entitled to exercise the same powers on behalf of the corporation as the corporation could exercise if it were an individual Member of the Company.

## 14.3 GENERAL INFORMATION

(a) Save for the purchase consideration paid to the shareholders of our subsidiary pursuant to the Acquisition of Flexidynamic Engineering as disclosed in Section 6.2, Directors' remuneration as disclosed in Section 5.2.4, dividends paid to our Promoters as disclosed in Section 11.13, no other amount or benefit has been paid or given within the past 2 years immediately preceding the date of this Prospectus, nor is it intended to be so paid or given, to any of our Promoter, Director or substantial shareholder.

(b) Save as disclosed in Section 9.1, none of our Directors or substantial shareholders has any interest, direct or indirect, in any contract or arrangement subsisting at the date of this Prospectus and which is significant in relation to the business of our Group.

(c) The manner in which copies of this Prospectus together with the official application forms and envelopes may be obtained and the details of the procedures for application of our Shares are set out in Section 15.

(d) There is no limitation on the right to own securities including limitation on the right of non-residents or foreign shareholders to hold or exercise their voting rights on our Shares.

## 14.4 CHANGES IN SHARE CAPITAL

As at the LPD, our share capital is RM20,866,020 comprising 208,660,200 Shares. The movements in our share capital since the date of our incorporation are set out below:

| Date of allotment | No. of Shares allotted | Consideration RM | Cumulative share capital RM |
|---|---:|---:|---:|
| 28 March 2019 | 200 | 20 | 20 |
| 9 December 2020 | 208,660,000 | 20,866,000 | 20,866,020 |

As at the LPD, we do not have any outstanding warrants, options, convertible securities and uncalled capital. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

Upon completion of our IPO, our enlarged share capital will be increased to RM35,912,220 comprising 283,891,200 Shares from the issuance of 75,231,000 Issue Shares.

The share capital of our subsidiaries is as follows.

### 14.4.1 Flexidynamic Engineering

As at the LPD, Flexidynamic Engineering's share capital is RM500,000.00 comprising 500,000 ordinary shares.

## 14. STATUTORY AND OTHER INFORMATION *(Cont'd)*

The changes in the share capital of Flexidynamic Engineering since its incorporation are as follows:

| Date of allotment | No. of shares allotted | Consideration | Cumulative share capital |
|---|---|---|---|
| | | RM | RM |
| 1 November 2012 | 100 | 100.00 | 100.00 |
| 17 June 2013 | 99,900 | 99,900.00 | 100,000.00 |
| 2 July 2013 | 100,000 | 100,000.00 | 200,000.00 |
| 18 December 2014 | 100,000 | 100,000.00 | 300,000.00 |
| 30 March 2016 | 200,000 | 200,000.00 | 500,000.00 |

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Flexidynamic Engineering. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

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## 14. STATUTORY AND OTHER INFORMATION *(Cont'd)*

### Changes in Flexidynamic Engineering's substantial shareholders' shareholdings

The changes in Flexidynamic Engineering's substantial shareholders' respective shareholdings for the past 3 years are as follows:

| | As at 31 December 2017 | | | | As at 31 December 2018 | | | | As at 31 December 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | |
| **Name** | **No. of Shares** | **%** | **No. of Shares** | **%** | **No. of Shares** | **%** | **No. of Shares** | **%** | **No. of Shares** | **%** | **No. of Shares** | **%** |
| Tan Kong Leong | 350,000 | 70.0 | - | - | 282,500 | 56.5 | (1) 15,000 | 3.0 | 282,500 | 56.5 | (1) 15,000 | 3.0 |
| Liew Heng Wei | 150,000 | 30.0 | - | - | 127,500 | 25.5 | - | - | 127,500 | 25.5 | - | - |
| Lion Suk Chin | - | - | (1) 150,000 | 30.0 | - | - | (1) 127,500 | 25.5 | - | - | (1) 127,500 | 25.5 |
| Phitchaya Arsangku | - | - | (1) 350,000 | 70.0 | 15,000 | 3.0 | (1) 282,500 | 56.5 | 15,000 | 3.0 | (1) 282,500 | 56.5 |
| Sin Kuo Wei | - | - | - | - | 20,000 | 4.0 | - | - | 20,000 | 4.0 | - | - |
| Loh Wei Keat | - | - | - | - | 20,000 | 4.0 | - | - | 20,000 | 4.0 | - | - |
| Tan Lui Ken | - | - | - | - | 10,000 | 2.0 | - | - | 10,000 | 2.0 | - | - |
| Chong Chee Keong | - | - | - | - | 10,000 | 2.0 | - | - | 10,000 | 2.0 | - | - |
| Lim Khin Choong | - | - | - | - | 10,000 | 2.0 | - | - | 10,000 | 2.0 | - | - |
| Wong Fook Loong | - | - | - | - | 5,000 | 1.0 | - | - | 5,000 | 1.0 | - | - |
| Flexidynamic Holdings | - | - | - | - | - | - | - | - | - | - | - | - |

| | As at LPD | | | |
|---|---|---|---|---|
| | Direct | | Indirect | |
| **Name** | **No. of Shares** | **%** | **No. of Shares** | **%** |
| Tan Kong Leong | - | - | (2) 500,000 | 100.0 |
| Liew Heng Wei | - | - | - | - |
| Lion Suk Chin | - | - | - | - |
| Phitchaya Arsangku | - | - | (3) 500,000 | 100.0 |
| Sin Kuo Wei | - | - | - | - |
| Loh Wei Keat | - | - | - | - |
| Tan Lui Ken | - | - | - | - |
| Chong Chee Keong | - | - | - | - |
| Lim Khin Choong | - | - | - | - |
| Wong Fook Loong | - | - | - | - |
| Flexidynamic Holdings | 500,000 | 100.0 | - | - |

## 14. STATUTORY AND OTHER INFORMATION

Notes:

(1) Deemed interested by virtue of his/her spouse's shareholdings in Flexidynamic Engineering.
(2) Deemed interested by virtue of his shareholding in Flexidynamic Holdings.
(3) Deemed interested by virtue of her spouse's shareholding in Flexidynamic Holdings.

### 14.4.2 Flexidynamic Thailand

As at the LPD, Flexidynamic Thailand's share capital is THB4,000,000.00 comprising 40,000 ordinary shares of THB100 each.

The changes in the share capital of Flexidynamic Thailand since its incorporation are as follows:

| Date of allotment | No. of shares allotted | Consideration | Cumulative share capital |
|---|---|---|---|
| | | THB | THB |
| 10 July 2015 | 10,000 | 1,000,000 | 1,000,000 |
| 18 September 2017 | 10,000 | 1,000,000 | 2,000,000 |
| 22 February 2019 | 20,000 | 2,000,000 | 4,000,000 |

As at the LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Flexidynamic Thailand. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

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## 14. STATUTORY AND OTHER INFORMATION *(Cont'd)*

### Changes in Flexidynamic Thailand's substantial shareholders' shareholdings

The changes in Flexidynamic Thailand's substantial shareholders' respective shareholdings for the past 3 years are as follows:

| | As at 31 December 2017 | | | | As at 31 December 2018 | | | | As at 31 December 2019 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Direct | | Indirect | | Direct | | Indirect | | Direct | | Indirect | |
| Name | No. of Shares | % | No. of Shares | % | No. of Shares | % | No. of Shares | % | No. of Shares | % | No. of Shares | % |
| Tan Kong Leong | 9,000 | 45.0 | [1] 10,000 | 50.0 | - | - | [3] 9,800 | 49.0 | - | - | [3] 19,600 | 49.0 |
| Phitchaya Arsangku | 10,000 | 50.0 | [1][2] 10,000 | 50.0 | - | - | [4] 9,800 | 49.0 | - | - | [4] 19,600 | 49.0 |
| Malinee Arsangku | 1,000 | 5.0 | [2] 10,000 | 50.0 | - | - | - | - | - | - | - | - |
| Flexidynamic Engineering | - | - | - | - | 9,800 | 49.0 | - | - | 19,600 | 49.0 | - | - |
| Boonjing Boongrajang | - | - | - | - | 10,000 | 50.0 | - | - | 20,000 | 50.0 | - | - |
| Naphatson Santibun | - | - | - | - | 200 | 1.0 | - | - | 400 | 1.0 | - | - |
| Liew Heng Wei | - | - | - | - | - | - | [3] 9,800 | 49.0 | - | - | [3] 19,600 | 49.0 |
| Lion Suk Chin | - | - | - | - | - | - | [4] 9,800 | 49.0 | - | - | [4] 19,600 | 49.0 |

| | As at LPD | | | |
|---|---|---|---|---|
| | Direct | | Indirect | |
| Name | No. of Shares | % | No. of Shares | % |
| Tan Kong Leong | - | - | [5] 19,600 | 49.0 |
| Phitchaya Arsangku | - | - | [6] 19,600 | 49.0 |
| Malinee Arsangku | - | - | - | - |
| Flexidynamic Engineering | 19,600 | 49.0 | - | - |
| Boonjing Boongrajang | 20,000 | 50.0 | - | - |
| Naphatson Santibun | 400 | 1.0 | - | - |
| Liew Heng Wei | - | - | - | - |
| Lion Suk Chin | - | - | - | - |

Notes:

(1) Deemed interested by virtue of his/her spouse's shareholdings in Flexidynamic Thailand.
(2) Deemed interested by virtue of her sister's shareholdings in Flexidynamic Thailand.
(3) Deemed interested by virtue of their shareholdings in Flexidynamic Engineering.
(4) Deemed interested by virtue of her spouse's shareholdings in Flexidynamic Engineering.
(5) Deemed interested by virtue of his shareholding in Flexidynamic Holdings.
(6) Deemed interested by virtue of her spouse's shareholding in Flexidynamic Holdings.

### 14.5 CONSENTS

(a) The written consents of the Adviser, Sponsor, Underwriter, Placement Agent, Solicitors, Share Registrar, Company Secretary and Issuing House to the inclusion in this Prospectus of their names in the form and context in which such names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn;

(b) The written consents of the Auditors and Reporting Accountants to the inclusion in this Prospectus of their names, Accountants' Report and letter relating to the Pro forma Consolidated Financial Information in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not subsequently been withdrawn; and

(c) The written consent of the IMR to the inclusion in this Prospectus of its name and the IMR Report titled "IMR Report on the Glove Chlorination Manufacturing Industry in Malaysia, Thailand and Vietnam", in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not been subsequently withdrawn.

### 14.6 DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of our Company during normal business hours for a period of 6 months from the date of this Prospectus:

(a) Constitution of our Company;

(b) The audited financial statements of the Flexidynamic Holdings Group for the FYEs 2017, 2018 and 2019 and FPE 2020;

(c) The Accountants' Report as set out in Section 12;

(d) The Reporting Accountants' reports relating to our pro forma consolidated statements of financial information as set out in Section 13;

(e) The IMR Report as set out in Section 7;

(f) The material contracts as set out in Section 6.16; and

(g) The letters of consent as set out in Section 14.5.

## 14.7 RESPONSIBILITY STATEMENTS

Our Directors and Promoters have seen and approved this Prospectus, and they collectively and individually accept full responsibility for the accuracy of the information contained herein, and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no false or misleading statements or other facts which if omitted, would make any statement in this Prospectus false or misleading.

M&A Securities acknowledge that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning our IPO.

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## 15. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

**THIS SUMMARISED 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 PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT THE ISSUING HOUSE FOR FURTHER ENQUIRIES.**

**Unless otherwise defined, all words and expressions used here shall carry the same meaning as ascribed to them in our Prospectus.**

**Unless the context otherwise requires, words used in the singular include the plural, and vice versa.**

### 15.1 OPENING AND CLOSING OF APPLICATION

OPENING OF THE APPLICATION PERIOD: 10.00 A.M. ON 9 MARCH 2021

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M. ON 16 MARCH 2021

In the event there is any change to the timetable, we will advertise the notice of the changes in a widely circulated English and Bahasa Malaysia daily newspaper in Malaysia.

**Late Applications will not be accepted.**

### 15.2 METHODS OF APPLICATIONS

#### 15.2.1 Retail Offering

Application must accord with our Prospectus and our Constitution. The submission of an Application Form does not mean that the Application will succeed.

| **Types of Application and category of investors** | **Application Method** |
|---|---|
| Applications by our eligible employees and persons who have contributed to the success of our Group | 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 |

### 15.2.2 Placement

| **Types of Application** | **Application Method** |
|---|---|
| Applications by: | |
| (a) Selected investors | The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions. |

Selected investors may still apply for our IPO Shares offered to the Malaysian Public using the White Application Form, Electronic Share Application or Internet Share Application.

## 15.3 ELIGIBILITY

### 15.3.1 General

You must have a CDS account and a correspondence address in Malaysia. If you do not have a CDS account, you may open a CDS account by contacting any of the ADAs set out in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic 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.**

### 15.3.2 Application by the Malaysian Public

You can only apply for our IPO Shares if you fulfill all of the following:

(a) You must be one of the following:

   (i) A Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or

   (ii) 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

   (iii) A superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.

(b) You must not be a director or employee of the Issuing House or an immediate family member of a director or employee of the Issuing House; and

(c) You must submit Applications by using only one of the following methods:

(i) White Application Form;

(ii) Electronic Share Application; or

(iii) Internet Share Application.

### 15.3.3 Application by our eligible employees and persons who have contributed to the success of our Group

Our eligible employees and persons (including any entities, wherever established) who have contributed to the success of our Group will be provided with Pink Application Forms and letters from us detailing their respective allocation.

## 15.4 APPLICATION BY WAY OF APPLICATION 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 RM0.20 for each IPO Share.

Payment must be made out in favour of **"TIIH SHARE ISSUE ACCOUNT NO. 699"** 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:

(a) Despatch by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd (Registration No. 197101000970 (11324-H))
Unit 32-01, Level 32, Tower A
Vertical Business Suite, Avenue 3
Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

(b) **DELIVER BY HAND AND DEPOSIT** in the drop-in box provided at the following address:

Customer Service Centre
Unit G-3, Ground Floor
Vertical Podium, Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

so as to arrive not later than 5.00 p.m. on 16 March 2021 or by such other time and date specified in any change to the date or time for closing.

We, together with the Issuing House, will not issue any acknowledgement of the receipt of your Application Forms or Application monies. Please direct all enquiries in respect of the White Application Form to the Issuing House.

## 15.5 APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATIONS

Only Malaysian individuals may apply for our IPO 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, 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.

## 15.6 APPLICATION BY WAY OF INTERNET SHARE APPLICATIONS

Only Malaysian individuals may use the Internet Share Application to apply for our IPO 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.

## 15.7 AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE

The Issuing House, on the authority of our Board reserves the right to:

(a) reject Applications which:

(i) Do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or

(ii) Are illegible, incomplete or inaccurate; or

(iii) Are accompanied by an improperly drawn up, or improper form of, remittance; or

(b) Reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and

(c) 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 15.8 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 the Issuing House at anytime 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.

## 15.8 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.

### 15.8.1 For applications by way of Application Forms

(a) 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 10 Market Days from the date of the final ballot at your own risk.

(b) 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.

(c) 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 the Issuing House as per items (a) and (b) above (as the case may be).

(d) The Issuing House reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within 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 (b) above (as the case may be).

### 15.8.2 For applications by way of Electronic Share Application and Internet Share Application

(a) The Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within 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 Institution or Internet Participating Financial Institution (or arranged with the Authorised Financial Institutions) within 2 Market Days after the receipt of confirmation from the Issuing House.

(b) You may check your account on the 5th Market Day from the balloting date.

(c) 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 the Issuing House 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 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 Institution will be informed of the unsuccessful or partially successful Applications within 2 Market Days after the final balloting date. The Participating Financial Institution will credit the Application monies or any part thereof (without interest) within 2 Market Days after the receipt of confirmation from the Issuing House.

## 15.9 SUCCESSFUL APPLICANTS

If you are successful in your application:

(a) Our IPO Shares allotted to you will be credited into your CDS account.

(b) 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.

(c) 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.

(d) In accordance with Section 29 of the SICDA, all dealings in our 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.

### 15.10 ENQUIRIES

Enquiries in respect of the applications may be directed as follows:

| **Mode of application** | **Parties to direct the enquiries** |
|---|---|
| Application Form | Issuing House Enquiry Services at telephone no. 03-2783 9299 |
| Electronic Share Application | Participating Financial Institution |
| Internet Share Application | Internet Participating Financial Institution and Authorised Financial Institution |

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website at https://tiih.online, 1 Market Day after the balloting date.

You may also check the status of your Application at the above website, 5 Market Days after the balloting date or by calling your respective ADA during office hours at the telephone number as stated in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities.

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