12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

Our Group's historical audited financial information comprise of:

(i) the combined statements of financial position as at 31 December 2017, 31 December 2018 and 31 December 2019, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years then ended; and

(ii) the consolidated statements of financial position as at 31 December 2020, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the financial year then ended.

12.1.1 Statements of comprehensive income

The following table sets out a summary of our Group's audited statements of comprehensive income for the Financial Years Under Review which was extracted from the Accountants' Report set out in Section 13 of this Prospectus.

The following financial information should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations set out in Section 12.3 of this Prospectus and the accompanying notes as set out in the Accountants' Report included in Section 13 of this Prospectus.

	AUDITED			
	FYE 2017 RM'000	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Revenue	121,832	173,787	157,918	166,132
Cost of sales	(98,313)	(151,619)	(134,981)	(138,648)
Gross profit	23,519	22,168	22,937	27,484
Other income	684	609	707	459
Administrative expenses	(7,530)	(10,803)	(11,624)	(13,228)
Finance costs	(67)	(33)	(90)	(212)
PBT	16,606	11,941	11,930	14,503
Income tax expense	(4,015)	(3,454)	(3,044)	(4,059)
PAT	12,591	8,487	8,886	10,444
Profit attributable to:				
Owners of the Group	12,549	8,445	8,856	10,444
Non-controlling interest	42	42	30	-
	12,591	8,487	8,886	10,444
EBITDA[(1)]	17,435	12,725	13,142	15,934
GP margin (%)[(2)]	19.30	12.76	14.52	16.54
PBT margin (%)[(3)]	13.63	6.87	7.55	8.73
PAT margin (%)[(4)]	10.33	4.88	5.63	6.29
Number of Shares assumed in issue ('000)[(5)]	178,321	178,321	178,321	178,321
Basic/diluted EPS (sen)[(6)]	7.04	4.74	4.97	5.86

Notes:

(1) The table below sets forth a reconciliation of our PBT to EBITDA:

	Audited			
	FYE 2017 RM'000	***FYE 2018 RM'000***	***FYE 2019 RM'000***	***FYE 2020 RM'000***
PBT	*16,606*	*11,941*	*11,930*	*14,503*
Finance costs	*67*	*33*	*90*	*212*
Finance income	*(341)*	*(353)*	*(207)*	*(150)*
Depreciation	*1,103*	*1,104*	*1,329*	*1,369*
EBITDA	***17,435***	***12,725***	***13,142***	***15,934***

(2) GP margin is computed based on our GP over revenue.

(3) PBT margin is computed based on our PBT over revenue.

(4) PAT margin is computed based on our PAT over revenue.

(5) Assumed number of ordinary shares in issue in Haily after our IPO.

(6) Computed based on PAT attributable to owners of the Group divided by our enlarged number of Shares in issue after our IPO. The diluted EPS is equal to the basic EPS as the Company does not have any outstanding convertible securities at the end of the financial years.

12.1.2 Statements of financial position

The following table sets out a summary of our Group's audited statements of financial position for the Financial Years Under Review which was extracted from the Accountants' Report set out in Section 13 of this Prospectus.

The following financial information should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations set out in Section 12.3 of this Prospectus and the accompanying notes as set out in the Accountants' Report included in Section 13 of this Prospectus.

	As at 31 December			
	2017 RM'000	**2018 RM'000**	**2019 RM'000**	**2020 RM'000**
ASSETS				
Non-current assets				
Property, plant and equipment	2,231	2,219	3,781	4,116
Investment properties	5,259	5,378	-	-
Deferred tax asset	19	6	-	-
Goodwill	118	118	118	118
Other investments	-	-	-	1,818
Total non-current assets	7,627	7,721	3,899	6,052
Current assets				
Current tax assets	4,004	3,987	872	1
Trade and other receivables	59,691	61,971	72,469	73,911
Contract assets	17,113	17,768	16,724	29,677
Cash and short-term deposits	14,318	15,010	20,243	27,154
Total current assets	95,126	98,736	110,308	130,743
TOTAL ASSETS	102,753	106,457	114,207	136,795

	As at 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
EQUITY AND LIABILITIES				
Equity attributable to owners of the Group				
Invested equity[1]	1,500	1,500	1,500	41,530
Reorganisation reserve	-	-	-	(40,030)
Retained earnings	36,482	39,677	42,530	50,474
	37,982	41,177	44,030	51,974
Non-controlling interest	123	165	-	-
TOTAL EQUITY	38,105	41,342	44,030	51,974
Non-current liabilities				
Loans and borrowings	2,429	2,129	1,250	1,102
Deferred tax liabilities	193	153	183	187
Total non-current liabilities	2,622	2,282	1,433	1,289
Current liabilities				
Loans and borrowings	629	630	665	6,468
Current tax liabilities	7	5	18	1,054
Trade and other payables	50,008	52,065	57,479	73,050
Contract liabilities	11,382	10,133	10,582	2,960
Total current liabilities	62,026	62,833	68,744	83,532
TOTAL LIABILITIES	64,648	65,115	70,177	84,821
TOTAL EQUITY AND LIABILITIES	102,753	106,457	114,207	136,795

Note:

(1) Equivalent to issued share capital.

12.1.3 Statements of cash flows

The following table sets out a summary of our Group's audited statements of cash flows for the Financial Years Under Review, which have been extracted from the Accountants' Report set out in Section 13 of this Prospectus.

The following financial information should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations set out in Section 12.3 of this Prospectus and the accompanying notes as set out in the Accountants' Report included in Section 13 of this Prospectus.

	AUDITED			
	FYE 2017 RM'000	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
PBT	16,606	11,941	11,930	14,503
Adjustments for:				
Depreciation of property, plant and equipment	974	960	1,197	1,369
Property, plant and equipment written off	15	1	-	-
Gain on disposal of property, plant and equipment	(174)	(1)	(44)	(7)
Depreciation of investment properties	129	144	132	-
Loss on disposal of investment properties	-	-	43	-
Finance income	(341)	(353)	(207)	(150)
COVID-19 related rent concession income	-	-	-	(3)
Finance costs	67	33	90	212
Operating profit before changes in working capital	17,276	12,725	13,141	15,924
Changes in working capital:				
Trade and other receivables	70	(3,273)	(11,328)	(1,442)
Contract assets	(6,781)	(655)	1,044	(12,953)
Trade and other payables	10,540	2,057	5,414	16,992
Contract liabilities	(8,863)	(1,249)	449	(7,622)
Net cash generated from operations	**12,242**	**9,605**	**8,720**	**10,899**
Income tax paid	(3,809)	(4,173)	(3,140)	(3,190)
Income tax refund	46	707	3,260	1,042
Interest paid	-	-	-	(89)
Net cash flows from operating activities	**8,479**	**6,139**	**8,840**	**8,662**
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of additional shares in a subsidiary	-	-	(185)	-
Purchase of property, plant and equipment	(236)	(549)	(730)	(845)
Proceeds from disposal of property, plant and equipment	309	1	47	10
Purchase of investment properties	(231)	(263)	-	-
Proceeds from disposal of investment properties	-	-	5,203	-
Purchase of other investments	-	-	-	(1,818)
Change in pledged deposits	10,674	(22)	(24)	(323)
Interest received	341	353	207	150
Net cash flows from/(used in) investing activities	**10,857**	**(480)**	**4,518**	**(2,826)**

12. FINANCIAL INFORMATION (CONT'D)

	AUDITED			
	FYE 2017 RM'000	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of ordinary shares	-	-	-	-[1]
Repayment of term loans	(234)	(234)	(2,126)	-
Repayment of finance lease liabilities	(1,377)	(465)	-	-
Repayment of lease liabilities	-	-	(763)	(824)
Proceeds from revolving credit	-	-	-	1,000
Repayment of invoice financing	-	-	-	(1,421)
Net change in amount owing by a related party	(843)	993	830	-
Interest paid	(67)	(33)	(90)	(123)
Dividend paid	(10,005)	(5,250)	(6,000)	(2,500)
Net cash flows used in financing activities	**(12,526)**	**(4,989)**	**(8,149)**	**(3,868)**
Net increase in cash and cash equivalents	**6,810**	**670**	**5,209**	**1,968**
Cash and cash equivalents at the beginning of the financial year	6,658	13,468	14,138	19,347
Cash and cash equivalents at the end of the financial year	**13,468**	**14,138**	**19,347**	**21,315**

Note:

(1) Represents RM100.

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12.2 CAPITALISATION AND INDEBTEDNESS

The following table sets out our Group's capitalisation and indebtedness based on our last available audited financial statements as at 31 December 2020, our unaudited management accounts as at 31 May 2021 and pro forma after taking into account, our Public Issue and utilisation of proceeds from our Public Issue.

The pro forma financial information below does not represent our actual cash and short-term deposits, capitalisation and indebtedness as at 31 May 2021 and is provided for illustrative purpose only.

	Audited as at 31 December 2020 RM'000	Unaudited as at 31 May 2021 RM'000	Pro Forma after Public Issue and utilisation of proceeds RM'000
Cash and short-term deposits	27,154	22,242	(1)30,165
Indebtedness			
Short-term indebtedness			
Secured and guaranteed:			
- Lease liabilities	848	762	762
- Revolving credit	1,000	1,000	733
- Bank overdraft	4,620	6,671	-
	6,468	8,433	1,495
Long-term indebtedness			
Secured and guaranteed:			
- Lease liabilities	1,102	809	809
	1,102	809	809
Total indebtedness	**7,570**	**9,242**	**2,304**
Capitalisation			
Total equity	51,974	56,297	74,853
Total capitalisation and indebtedness	**59,544**	**65,539**	**77,157**
Gearing ratio (times)(2)	0.15	0.16	0.03

***Notes**:*

(1) Arising from the total gross proceeds raised from the Listing of RM20.40 million and after taking into consideration the following:

(a) RM4.20 million to be utilised for the purchase of construction machinery, equipment as well as new contract management and accounting software and office equipment;

(b) RM6.94 million (RM6.67 million for bank overdraft and RM0.27 million for revolving credit) to be utilised for the repayment of bank borrowings; and

(c) the remaining listing expenses to be incurred after 31 May 2021 of RM1.34 million out of the RM3.20 million set aside for this purpose.

We wish to further clarify the following:

- *In addition, RM0.06 million was drawn down from our bank overdraft facilities after 31 May 2021 and up to LPD. This amount will also be repaid from the Group's IPO proceeds earmarked for the repayment of bank borrowings; and*
- *that as at 31 May 2021, our Group has incurred listing expenses of RM1.86 million, which will be reimbursed to our Group from the proceeds earmarked for the settlement of listing expenses of RM3.20 million. The abovementioned RM1.86 million will be utilised to replenish our Group's cash balances.*

(2) Computed based on total indebtedness divided by total equity.

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

The following management's discussion and analysis of our Group's financial condition and results of operations for the Financial Years Under Review should be read in conjunction with our financial statements and the accompanying notes as set out in the Accountants' Report included in Section 13 of this Prospectus.

This discussion and analysis contain data derived from our financial statements as well as forward-looking statements that reflect our views with respect to future events and our future financial performance. Actual events and results may differ significantly from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under Section 9, Risk factors of this Prospectus.

Overview of Business Operations

We are principally involved in the business of building construction, which have contributed 99.05%, 99.15%, 99.21% and 98.64% of our Group's total revenue for the Financial Years Under Review. Our other revenue streams include that from civil engineering construction works and rental of machinery and equipment, which contributed in aggregate less than 1% of our Group's total revenue.

For our building construction activities, we are responsible for the overall project including project management from the planning stage till the completion of works and project handover to customer. The types of buildings which we have constructed during the Financial Years Under Review and up to the LPD are as follows:

(i) Residential consisting of:
  (a) single-dwelling buildings including terrace, cluster, semi-detached and detached houses; and
  (b) multi-dwelling buildings, namely high-rise apartments.

(ii) Non-residential consisting of:
  (a) commercial buildings including commercial complex, shop offices, serviced apartments and terrace villas;
  (b) purpose-built buildings including workers' dormitory, sales gallery and clubhouse;
  (c) industrial buildings including factories; and
  (d) institutional building namely a school[(1)].

  Note:
  (1) Newly secured project as the letter of award was accepted in May 2021.

Our civil engineering construction works mainly involved the refurbishment and conversion of existing sales gallery to food court, construction of underground on-site detention tank and construction of perimeter fencing and security guardhouse, as well as rectification and extension works for existing buildings. We also derive revenue from the rental of machinery and equipment to other building contractors.

Please refer to Section 7 of this Prospectus for further information on the business operations of our Group.

Results from Operations

The segmental analysis of our financial results for the Financial Years Under Review are based on business activities. As our Group's operations and revenue during the Financial Years Under Review are mainly derived from our subsidiary Haily Construction and solely derived within the state of Johor, the segmental analysis based on subsidiaries and geographical region has not been prepared.

12.3.1 Segmental analysis by revenue

Our main revenue stream is derived from construction activities. Our other revenue streams come from civil engineering construction works and the rental of machinery and equipment.

Revenue from our building construction activities and civil engineering construction works are recorded based on stage of completion method. The stage of completion is measured based on the proportion of contract cost incurred for work performed to date in reference to the estimated total contract cost. Meanwhile, our revenue derived from rental of machinery and equipment is based on a straight-line apportionment over the period of the lease.

Our Group's total revenue increased from RM121.83 million in FYE 2017 to RM173.79 million in FYE 2018 but subsequently decreased to RM157.92 million in FYE 2019 before increasing again to RM166.13 million in FYE 2020. Our revenue derived from construction activities contributed to substantially our entire revenue achieved for the Financial Years Under Review. An analysis of the revenue contributed by some of our customers to each financial year during the Financial Years Under Review and the corresponding building construction projects are as follows:

FYE 2017

Customers	Projects	Length of relationship as at 31 December 2017 (year)	Revenue Contribution	
			RM'000	%
Venice View Development Sdn Bhd	• Project Plentong High Rise Phase 1; and • Project Plentong High Rise Phase 2	8	78,738	64.63
Meridin East Sdn Bhd	• 116 DTSH Meridin East – Parcel 1E Project; • 90 DSTH Meridin East – Parcel 1D Project; • Meridin East Show House Project; and • Meridin East Sales Gallery Project	3	20,957	17.20
Juragan Jaya Sdn Bhd	3 SSF Taman Perindustrian Maju Cemerlang Project	1	5,644	4.63
IJM Properties Sdn Bhd	182 DSTH Taman Austin Duta Project	<1	4,650	3.82

Customers	Projects	Length of relationship as at 31 December 2017 (year)	Revenue Contribution RM'000	%
Mah Sing Properties Sdn Bhd	Austin V Square Project	8	3,926	3.22
Danau Homes Sdn Bhd	• 10 SDF Taman Perindustrian Ringan Pulai Project; • 204 units of three-storey shop offices in Taman Ungku Tun Aminah, Pulai, Johor • 4 units of show houses in Taman Ungku Tun Aminah, Pulai, Johor • 24 DSSD Taman Ungku Tun Aminah – Zone 8 Project • 20 CF/SDF Taman Perindustrian Ringan Pulai Project	7	2,445	2.01
Sub-total			**116,360**	**95.51**
Total Group revenue			**121,832**	

FYE 2018

Customers	Projects	Length of relationship as at 31 December 2018 (year)	Revenue Contribution RM'000	%
Venice View Development Sdn Bhd	• Project Plentong High Rise Phase 1; and • Project Plentong High Rise Phase 2	9	70,203	40.40
Country View Resources Sdn Bhd	• 39 TSSL Taman Nusa Sentral Project; • 35 TSSL Taman Nusa Sentral Project; • 143 RMMJ Taman Nusa Sentral Project; • 66 TSCH Taman Nusa Sentral Project; and • 66 PKJ Taman Nusa Sentral Project	7	29,765	17.13
IJM Properties Sdn Bhd	182 DSTH Taman Austin Duta Project	1	20,776	11.95
Meridin East Sdn Bhd	• 90 DSTH Meridin East – Parcel 1D Project; • 116 DTSH Meridin East – Parcel 1E Project; • Meridin East Sales Gallery Project • Meridin East Show House – Parcel 1H Project; • 236 DSTH Meridin East – Parcel 1H Project; and Meridin East Show House Project	4	16,174	9.31

Customers	Projects	Length of relationship as at 31 December 2018 (year)	Revenue Contribution	
			RM'000	%
Talam Hijau Sdn Bhd	70 DSSD Taman Impiana Project	1	12,536	7.21
Danau Homes Sdn Bhd	• 10 SDF Taman Perindustrian Ringan Pulai Project; • 30 SSSD Taman Ungku Tun Aminah – Zone 11D Project • 204 units of three-storey shop offices in Taman Ungku Tun Aminah, Pulai, Johor	8	8,065	4.64
Tek Land Sdn Bhd	Indahpura Business Central (Phase 1) Project	1	6,273	3.61
Insight Rewards Sdn Bhd	Frontier Dormitory Project	<1	5,121	2.95
Sub-total			**168,913**	**97.20**
Total Group revenue			**173,787**	

FYE 2019

Customers	Projects	Length of relationship as at 31 December 2019 (year)	Revenue Contribution	
			RM'000	%
Meridin East Sdn Bhd	• 236 DSTH Meridin East – Parcel 1H Project; • 164 DSTH Meridin East – Parcel 1F2 Project; • 90 DSTH Meridin East – Parcel 1D Project; • Meridin East Show House – Parcel 1A Project; • 116 DTSH Meridin East – Parcel 1E Project; and • Meridin East Show House – Parcel 1H Project	5	39,671	25.12
Country View Resources Sdn Bhd	• 66 TSCH Taman Nusa Sentral Project; • 143 RMMJ Taman Nusa Sentral Project; • 39 TSSL Taman Nusa Sentral Project; • 66 PKJ Taman Nusa Sentral Project; • 35 TSSL Taman Nusa Sentral Project; • 30 TSSD Taman Nusa Sentral Project; and • Taman Nusa Sentral – Guardhouse and perimeter fencing Project	8	38,321	24.27

12. FINANCIAL INFORMATION (CONT'D)

Customers	Projects	Length of relationship as at 31 December 2019 (year)	Revenue Contribution	
			RM'000	%
Pembinaan Intra Vista Sdn Bhd	• 93 DSTH St Marco Park (Phase 1) Project; and • 174 DSTH St Marco Park (Phase 2) Project	<1	21,062	13.34
Venice View Development Sdn Bhd	• Project Plentong High Rise Phase 1; and • Project Plentong High Rise Phase 2	10	13,620	8.62
Tek Land Sdn Bhd	• Indahpura Business Central (Phase 1) Project; and • Indahpura Business Central (Phase 2) Project	2	12,806	8.11
Danau Homes Sdn Bhd	• 10 SDF Taman Perindustrian Ringan Pulai Project; • 30 SSSD Taman Ungku Tun Aminah – Zone 11D Project • 30 SSSD Taman Ungku Tun Aminah – Zone 9 Project • Taman Ungku Tun Aminah – Zone 13 Project	9	6,476	4.10
Insight Rewards Sdn Bhd	Frontier Dormitory Project	2	12,775	8.09
IJM Properties Sdn Bhd	182 DSTH Taman Austin Duta Project	2	1,464	0.93
Talam Hijau Sdn Bhd	70 DSSD Taman Impiana Project	2	2,237	1.42
Sub-total			**148,432**	**94.00**
Total Group revenue			**157,918**	

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FYE 2020

Customers	Projects	Length of relationship as at 31 December 2020 (year)	Revenue Contribution RM'000	%
Meridin East Sdn Bhd	• 164 DSTH Meridin East – Parcel 1F2 Project; • 236 DSTH Meridin East – Parcel 1H Project; • 185 DSTH Meridin East – Parcel 1I Project; and • Meridin East Show House – Parcel 1A Project	6	42,788	25.76
Austin Senibong Development Sdn Bhd	• 264 DSTH Bandar Jaya Putra Project; and • Bandar Jaya Putra Project	2	36,800	22.15
Danau Homes Sdn Bhd	• Taman Ungku Tun Aminah – Zone 13 Project; • 30 SSSD Taman Ungku Tun Aminah – Zone 9 Project; and • 30 SSSD Taman Ungku Tun Aminah – Zone 11D Project	10	18,848	11.35
Gunung Impian Development Sdn Bhd	128 DSTH Taman Impian Emas Project	2	17,320	10.42
Country View Resources Sdn Bhd	• 30 TSSD Taman Nusa Sentral Project; • 66 TSCH Taman Nusa Sentral Project; • Aurora Sentral Show House Project • 143 RMMJ Taman Nusa Sentral Project; • 66 PKJ Taman Nusa Sentral Project; and • Taman Nusa Sentral – Guardhouse and perimeter fencing Project	9	16,571	9.97
Pembinaan Intra Vista Sdn Bhd	• 93 DSTH St Marco Park (Phase 1) Project; and • 174 DSTH St Marco Park (Phase 2) Project	2	10,846	6.53
Nice Frontier Sdn Bhd	• 120 SSTH Bandar Putra Project; and • 10 double-storey detached factories located at I-Synergy Industrial Park	7	8,027	4.83
Tek Land Sdn Bhd	• Indahpura Business Central (Phase 1) Project; and • Indahpura Business Central (Phase 2) Project	3	7,241	4.36
Sub-total			**158,441**	**95.37**
Total Group revenue			**166,132**	

Please refer to Section 7.18 of this Prospectus for further information on our major customers.

(1) Revenue by business activities

The table below presents the breakdown of our total revenue by business activities:

Revenue[(1)]	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Building construction	**120,675**	**99.05**	**172,309**	**99.15**	**156,675**	**99.21**	**163,875**	**98.64**
Residential buildings	29,597	24.29	78,871	45.38	116,981	74.08	144,926	87.23
Non-residential buildings	91,078	74.76	93,438	53.77	39,694	25.13	18,949	11.41
Others	**1,157**	**0.95**	**1,478**	**0.85**	**1,243**	**0.79**	**2,257**	**1.36**
Civil engineering construction works	1,126	0.92	1,469	0.84	1,242	0.79	2,257	1.36
Rental of machinery and equipment	31	0.03	9	0.01	1	-[(2)]	-	-
Total	**121,832**	**100.00**	**173,787**	**100.00**	**157,918**	**100.00**	**166,132**	**100.00**

Notes:

(1) Inter-company transactions have been eliminated.

(2) Negligible.

<u>FYE 2018 compared to FYE 2017</u>

Our total revenue increased by 42.64% or RM51.96 million, from RM121.83 million in FYE 2017 to RM173.79 million in FYE 2018. The revenue for both years were mainly attributed to our building construction segment which had contributed 99.05% and 99.15% of the revenue achieved in FYE 2017 and FYE 2018 respectively.

Revenue from building construction increased by 42.79% or RM51.63 million, from RM120.68 million in FYE 2017 to RM172.31 million in FYE 2018. This was mainly due to the increase in revenue achieved from the construction of residential buildings which had increased from RM29.60 million in FYE 2017 to RM78.87 million in FYE 2018, representing an increase of RM49.27 million or 166.48%. This was in line with the increase in revenue recognised pursuant to the percentage of completion from the following residential construction projects as compared to the prior financial year:

(i) 182 DSTH Taman Austin Duta Project, of which revenue recognised increased from RM4.65 million in the FYE 2017 to RM20.78 million in the FYE 2018, representing an increase of RM16.13 million or 346.76%;

(ii) 70 DSSD Taman Impiana Project, of which revenue recognised increased from RM1.65 million in the FYE 2017 to RM12.54 million in the FYE 2018, representing an increase of RM10.89 million or 657.77%;

(iii) 39 TSSL Taman Nusa Sentral Project, of which revenue recognised increased from RM0.25 million in the FYE 2017 to RM9.00 million in the FYE 2018, representing an increase of RM8.75 million or 3,559.70%;

(iv) 35 TSSL Taman Nusa Sentral Project, of which revenue recognised increased from RM0.23 million in the FYE 2017 to RM8.85 million in the FYE 2018, representing an increase of RM8.62 million or 3,821.64%;

(v) 143 RMMJ Taman Nusa Sentral Project, of which revenue recognised increased from a negligible sum (i.e. RM116) in the FYE 2017 to RM7.20 million in the FYE 2018, representing an increase of approximately RM7.20 million from a negligible sum in the prior financial year; and

(vi) 90 DSTH Meridin East – Parcel 1D Project, of which revenue recognised increased from RM5.37 million for the FYE 2017 to RM11.32 million for the FYE 2018, representing an increase of RM5.95 million or 110.97%.

The increase in revenue for the building construction of residential buildings was partially dampened by the decrease in revenue recognised for the construction of 116 DSTH Meridin East – Parcel 1E which had decreased from RM15.12 million for the FYE 2017 to RM2.86 million for the FYE 2018, representing a decrease of RM12.26 million or 81.09% due to its completion in FYE 2018.

In addition, the revenue recognised from the non-residential buildings sub-segment of the building construction segment had also increased from RM91.08 million in FYE 2017 to RM93.44 million in FYE 2018. This increase was mainly due to the following construction projects:

(i) increase in revenue recognised pursuant to the percentage of completion from Plentong High Rise Phase 2 Project from RM38.95 million for the FYE 2017 to RM70.50 million for the FYE 2018, representing an increase of RM31.55 million or 80.99% during the FYE 2018 as compared to the FYE 2017;

(ii) increase in revenue recognised pursuant to the percentage of completion from 10 SDF Taman Perindustrian Ringan Pulai Project from RM0.53 million in the FYE 2017 to RM7.64 million for the FYE 2018, representing an increase of RM7.11 million or 1,349.53% during the FYE 2018 as compared to the FYE 2017;

(iii) commencement of the construction of Indahpura Business Central (Phase 1) Project in FYE 2018 which contributed revenue of RM6.27 million in the said financial year; and

(iv) commencement of the construction of Frontier Dormitory Project in FYE 2018 which contributed revenue of RM5.12 million in the said financial year.

This was partially offset by the decrease in revenue recognised from the construction of non-residential commercial properties, namely the serviced apartment development project known as Plentong High Rise Phase 1 Project. This project was completed in the FYE 2017 and had contributed RM39.79 million during the said financial year.

In addition to the overall increase in revenue generated from our building construction activities, revenue from our civil engineering construction works had also increased from RM1.13 million for the FYE 2017 to RM1.47 million for the FYE 2018, representing an increase of RM0.34 million or 30.36%. This was due to the construction of an on-site detention tank located at Promenade Residence (Promenade Residence – Underground on-site detention tank project) which contributed RM0.90 million and rectification works at various other sites which had commenced in the FYE 2018 which contributed RM0.57 million. This is compared against the revenue from our civil engineering construction works for the FYE 2017, of which RM0.59 million was recognised from the completion of upgrading works undertaken at the Sebana Cove Clubhouse located at Pengerang, Johor (which was completed prior to the Financial Years Under Review), RM0.36 million from the resurfacing works for open car park and construction of access road at Tasek Central, Taman Ungku Tun Aminah (Tasek Central – Resurfacing works and construction of access road) and RM0.18 million from rectification works at various sites. Revenue from the rental of machinery and equipment during the FYE 2017 and FYE 2018 was negligible compared to the total revenue achieved by our Group.

FYE 2019 compared to FYE 2018

Our total revenue decreased by 9.13% or RM15.87 million from RM173.79 million for FYE 2018 to RM157.92 million for FYE 2019. The revenue for FYE 2019 continued to be mainly contributed by our building construction segment, namely 99.21% of our total revenue.

The decrease in revenue for FYE 2019 was mainly due to the decrease in revenue recognised from the construction of non-residential buildings, which decreased from RM93.44 million for FYE 2018 to RM39.69 million for FYE 2019 representing a decrease of RM53.75 million or 57.52%. This was as a result of the decrease in revenue recognised from the following projects:

(i) Plentong High Rise Phase 2 Project, of which revenue recognised decreased from RM70.50 million in the FYE 2018 to RM13.57 million in the FYE 2019, representing a decrease of RM56.93 million or 80.75%, as the project neared completion; and

(ii) 10 SDF Taman Perindustrian Ringan Pulai Project, of which revenue recognised decreased from RM7.64 million for the FYE 2018 to RM0.89 million for the FYE 2019, representing a decrease of RM6.75 million or 88.38%, due to the project's completion in FYE 2019.

The above decrease in revenue recognised from the construction of non-residential buildings was partially offset by the increase in revenue recognised from the construction of the Frontier Dormitory Project, of which revenue recognised increased by RM7.65 million or 149.46% from RM5.12 million for the FYE 2018 to RM12.77 million for the FYE 2019.

The decrease in revenue recognised from the construction of non-residential buildings was partially offset by the increase in revenue from the construction of residential buildings which increased from RM78.87 million in FYE 2018 to RM116.98 million in FYE 2019, representing an increase of RM38.11 million or 48.32%. This was mainly contributed by the increase in revenue recognised pursuant to the percentage of completion from the following projects:

(i) 236 DSTH Meridin East – Parcel 1H Project, of which revenue recognised had increased by RM27.15 million or 9,873.66% from RM0.27 million for the FYE 2018 to RM27.42 million for the FYE 2019; and

(ii) 66 TSCH Taman Nusa Sentral Project, of which revenue recognised had increased by RM13.20 million or 336.53% from RM3.92 million for the FYE 2018 to RM17.12 million for the FYE 2019.

In addition, we had also commenced the construction of the following projects in FYE 2019:

(i) 93 DSTH St Marco Park (Phase 1) Project, which recorded revenue of RM13.56 million;

(ii) 164 DSTH Meridin East – Parcel 1F2 Project, which recorded revenue of RM9.44 million; and

(iii) 174 DSTH St Marco Park (Phase 2) Project, which recorded revenue of RM7.51 million.

The abovementioned increase in revenue recognised pursuant to the percentage of completion from the construction of residential buildings was offset by the decrease in revenue recognised from the following projects in the FYE 2018 as compared to the FYE 2019:

(i) 182 DSTH Taman Austin Duta Project, of which revenue decreased by RM19.32 million or 92.95% from RM20.78 million for the FYE 2018 to RM1.46 million for the FYE 2019, due to the project's completion in FYE 2019;

(ii) 70 DSSD Taman Impiana Project, of which revenue decreased by RM10.30 million or 82.16% from RM12.54 million for the FYE 2018 to RM2.24 million for the FYE 2019, due to the project's completion in FYE 2019; and

(iii) 90 DSTH Meridin East – Parcel 1D Project, of which revenue decreased by RM9.51 million or 84.03% from RM11.32 million for the FYE 2018 to RM1.81 million for the FYE 2019, due to the project's completion in FYE 2019.

Our Group's revenue recognised from civil engineering construction works decreased to RM1.24 million for FYE 2019 from RM1.47 million for FYE 2018, representing a decrease of RM0.23 million or 15.39%. This was mainly due to the decrease in revenue recognised from Promenade Residence – Underground on-site detention tank, of which revenue of RM0.90 million was recognised in FYE 2018 as compared to RM0.09 million for the FYE 2019, representing a decrease of RM0.81 million or 89.44%. This was offset by the new civil engineering construction project during the FYE 2019 undertaken for the construction of Taman Nusa Sentral - Guardhouse and perimeter fencing Project which had contributed a combined revenue of RM0.58 million. Rectification works at various sites had remained consistent for the FYE 2018 and FYE 2019 at RM0.57 million for each financial year.

FYE 2020 compared to FYE 2019

Our total revenue increased by 5.20% or RM8.21 million from RM157.92 million for FYE 2019 to RM166.13 million for FYE 2020. The revenue for FYE 2020 continued to be mainly contributed by our building construction segment, namely 98.64% of our total revenue.

The increase in revenue for FYE 2020 was mainly due to the increase in revenue recognised from the construction of residential buildings, which increased from RM116.98 million for FYE 2019 to RM144.92 million for FYE 2020 representing an increase of RM27.94 million or 23.89%. This was mainly contributed by the increase in revenue recognised pursuant to the percentage of completion from the following projects:

(i) 264 DSTH Bandar Jaya Putra Project, of which revenue recognised increased from RM4.12 million in the FYE 2019 to RM30.49 million in the FYE 2020, representing an increase of RM26.37 million or 639.34%;

(ii) 128 DSTH Taman Impian Emas Project, of which revenue recognised increased from RM5.10 million in the FYE 2019 to RM17.32 million in the FYE 2020, representing an increase of RM12.22 million or 239.92%;

(iii) Taman Ungku Tun Aminah – Zone 13 Project, of which revenue recognised increased from RM0.31 million in the FYE 2019 to RM11.51 million in the FYE 2020, representing an increase of RM11.20 million or 3,581.55%;

(iv) 30 TSSD Taman Nusa Sentral Project, of which revenue recognised increased from RM0.45 million in the FYE 2019 to RM11.46 million in the FYE 2020, representing an increase of RM11.01 million or 2,430.80%;

(v) 164 DSTH Meridin East – Parcel 1F2 Project, of which revenue recognised increased from RM9.44 million in the FYE 2019 to RM16.99 million in the FYE 2020, representing an increase of RM7.55 million or 80.00%; and

(vi) 30 SSSD Taman Ungku Tun Aminah – Zone 9 Project, of which revenue recognised increase from RM0.12 million in the FYE 2019 to RM5.42 million in the FYE 2020, representing an increase of RM5.30 million or 4,305.67%.

In addition, we had also commenced the construction of the following projects in FYE 2020:

(i) 185 DSTH Meridin East – Parcel 1I Project, which recorded revenue of RM11.78 million; and

(ii) 120 SSTH Bandar Putra Project, which recorded revenue of RM8.00 million.

The above increase in revenue recognised from the construction of residential buildings was partially offset by the decrease in revenue recognised from the following projects:

(i) 236 DSTH Meridin East – Parcel 1H Project, which recorded revenue of RM13.63 million in FYE 2020 compared to RM27.42 million in FYE 2019, representing a decrease of RM13.79 million or 50.29% due to the project's completion in the FYE 2020;

(ii) 66 TSCH Taman Nusa Sentral Project, which recorded revenue of RM3.71 million in the FYE 2020 compared to RM17.12 million in the FYE 2019, representing a decrease of RM13.41 million or 78.33% due to the project's completion in the FYE 2020;

(iii) 143 RMMJ Taman Nusa Sentral Project, which recorded revenue of RM0.43 million in the FYE 2020 compared to RM7.15 million in the FYE 2019, representing a decrease of RM6.72 million or 93.95% due to the project's completion in the FYE 2020; and

(iv) 93 DSTH St Marco Park (Phase 1) Project, which recorded revenue of RM6.84 million in the FYE 2020 compared to RM13.56 million in the FYE 2019, representing a decrease of RM6.72 million or 49.55% due to the project's completion in the FYE 2020.

The increase in revenue recognised from the construction of residential buildings was partially offset by the decrease in revenue from the construction of non-residential buildings which decreased from RM39.69 million in FYE 2019 to RM18.95 million in FYE 2020, representing a decrease of RM20.74 million or 52.26%. This was as a result of the decrease in revenue recognised from the following projects which were completed in the FYE 2020:

(i) Plentong High Rise Phase 2 Project, of which revenue recognised decreased from RM13.57 million in the FYE 2019 to RM1.92 million in the FYE 2020, representing a decrease of RM11.65 million or 85.82%; and

(ii) Frontier Dormitory Project, of which revenue recognised decreased from RM12.77 million for the FYE 2019 to RM0.61 million in the FYE 2020, representing a decrease of RM12.16 million or 95.23%.

The abovementioned decrease in revenue recognised pursuant to the completion of construction of non-residential buildings was offset by the revenue recognised from the commencement of the Bandar Jaya Putra Project of RM6.31 million in the FYE 2020.

Our Group's revenue recognised from civil engineering construction works increased to RM2.25 million for FYE 2020 from RM1.24 million for FYE 2019, representing an increase of RM1.01 million or 81.67%. This was mainly due to the revenue recognised of RM1.74 million from the Tanjung Puteri – Refurbishment and Extension Project which commenced in the FYE 2020. The said increase was partially offset by the decrease in revenue recognised from the construction of Taman Nusa Sentral – Guardhouse and perimeter fencing Project which had contributed a combined revenue of RM0.12 million in FYE 2020 as compared to RM0.58 million in FYE 2019, representing a decrease of RM0.46 million or 78.78% as it is nearing completion. Revenue recognised from rectification works at various sites had also decreased from RM0.57 million for FYE 2019 to RM0.29 million for FYE 2020, representing a decrease of RM0.28 million or 49.92%.

We did not recognise any third-party revenue from our rental of machinery and equipment segment in the FYE 2020.

Revenue from the rental of machinery and equipment during the FYE 2018 and FYE 2019 continued to be negligible compared to the total revenue achieved by our Group.

(2) Revenue by geographical markets

For the Financial Years Under Review, all our revenue was derived from the state of Johor.

12.3.2 Cost of sales

The table below sets forth the breakdown of our Group's cost of sales by compositions:

	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
Cost of sales	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Subcontractor costs	**58,298**	**59.30**	**90,435**	**59.65**	**75,201**	**55.71**	**85,902**	**61.95**
- Building works	36,314	36.94	59,591	39.30	52,121	38.61	58,355	42.09
- M&E works	16,176	16.45	26,213	17.29	14,751	10.93	18,755	13.52
- External and fencing works	2,941	2.99	2,162	1.43	3,434	2.54	4,095	2.95
- Other subcontracted services[(1)]	2,867	2.92	2,469	1.63	4,895	3.63	4,697	3.39
Construction materials	**34,075**	**34.66**	**53,651**	**35.38**	**51,766**	**38.35**	**45,682**	**32.95**
- Concrete and cement materials	10,352	10.53	15,038	9.92	15,617	11.57	13,948	10.06
- Steel based materials	11,793	11.99	13,514	8.91	13,049	9.67	8,272	5.97
- Brickwork materials and tiles	5,747	5.85	14,860	9.80	12,218	9.05	15,277	11.02
- Timber and plywood	2,085	2.12	3,042	2.01	4,942	3.66	3,091	2.23
- Doors, windows and related materials	798	0.81	1,873	1.23	1,942	1.44	1,435	1.03
- Other materials[(2)]	3,300	3.36	5,324	3.51	3,998	2.96	3,659	2.64
Labour costs and overheads	**5,165**	**5.25**	**5,791**	**3.82**	**6,520**	**4.83**	**5,902**	**4.26**
Rental of machinery and equipment	**775**	**0.79**	**1,742**	**1.15**	**1,494**	**1.11**	**1,162**	**0.84**
Total	**98,313**	**100.00**	**151,619**	**100.00**	**134,981**	**100.00**	**138,648**	**100.00**

***Notes**:*
(1) Include earthworks and site preparation, piling, sewerage and drainage system, installation of related facilities such as swimming pool and fitness centre, and playground as well as landscaping works.
(2) Other materials include hardware and consumables, scaffolding, concrete pipes, plastic pipes and accessories, ceiling sheets and materials, paint materials and others.

Please refer to Section 7.9 of this Prospectus for further details of the major types of input materials and services purchased by the Group for our business operations during the Financial Years Under Review.

Our Group's analysis of our cost of sales during the Financial Years Under Review are as follows:

(i) Subcontractor costs

Our Group's subcontractor costs had increased from RM58.30 million for the FYE 2017 to RM90.44 million for the FYE 2018, representing an increase of RM32.14 million or 55.13%. This is in line with the increase in our Group's revenue for the FYE 2018 as compared to FYE 2017, which increased by 42.64%. Subcontractor costs for building works increased from RM36.31 million for the FYE 2017 to RM59.59 million for the FYE 2018, representing an increase of RM23.28 million or 64.10%. In addition, subcontractor costs for M&E works increased by RM10.03 million or 62.05% from RM16.18 million for the FYE 2017 to RM26.21 million for the FYE 2018.

In line with the decrease in revenue for the FYE 2019 by 9.13%, our Group's total subcontractor costs had decreased by RM15.24 million or 16.85% from RM90.44 million for the FYE 2018 to RM75.20 million. In view of the decrease in project activities, subcontractor costs for M&E works had reduced from RM26.21 million for FYE 2018 to RM14.75 million for FYE 2019, representing a decrease of RM11.46 million or 43.73%. Also, subcontractor costs for building works had decreased from RM59.59 million for FYE 2018 to RM52.12 million for FYE 2019, representing a decrease of RM7.47 million or 12.54%. Conversely, subcontractor costs associated with external and fencing works had increased by RM1.27 million or 58.83% due to fencing works undertaken only in FYE 2019 as well as other subcontracted services which had increased by RM2.43 million or 98.26% due to additional piling works undertaken by our Group during the FYE 2019 in addition to the main building works.

As a result of the increase in our Group's revenue in FYE 2020 by RM8.21 million or 5.20%, our group's total subcontractor costs for FYE 2020 had increased by RM10.70 million or 14.23%, from RM75.20 million in FYE 2019 to RM85.90 million. Subcontractor costs for building works increased from RM52.12 million for the FYE 2019 to RM58.35 million for the FYE 2020, representing an increase of RM6.23 million or 11.96%. In addition, subcontractor costs for M&E works increased by RM4.00 million or 27.14% from RM14.75 million for the FYE 2019 to RM18.75 million for the FYE 2020. Subcontractor costs for external and fencing works had also increased from RM3.43 million in FYE 2019 to RM4.09 million in FYE 2020, representing an increase of RM0.66 million or 19.25%.

(ii) Construction materials

Our Group's cost of construction materials had increased by RM19.57 million or 57.45%, to RM53.65 million for the FYE 2018 as compared to RM34.08 million for the FYE 2017. The fluctuations of our Group's cost of construction materials generally had moved in line with our Group's fluctuation in revenue generated from our Group's building construction activities during the FYE 2018, albeit the fluctuations in cost of brickwork materials and tiles was more significant. It had increased from RM5.75 million for the FYE 2017 to RM14.86 million for the FYE 2018, representing an increase of RM9.11 million or 158.57%. This was because our residential building construction projects during the FYE 2018 were mainly in the stage of architectural works whereby an increase in brickwork materials and tiles were required.

Despite the decrease in revenue by 9.13% for the FYE 2019, cost of construction materials had decreased by only RM1.88 million or 3.51%, from RM53.65 million for the FYE 2018 to RM51.77 million for the FYE 2019. This was because of the following:

- Amount spent on concrete and cement materials had increased from RM15.04 million in FYE 2018 to RM15.62 million in FYE 2019. This was because our most of our construction projects for the FYE 2019 were in the stage of structural works thus increasing the utilisation of concrete and cement materials; and

- Amount spent on timber and plywood had increased from RM3.04 million for the FYE 2018 to RM4.94 million for the FYE 2019, representing an increase of RM1.90 million or 62.46%. During the FYE 2019, our Group had undertaken an increased number of residential construction projects which increased the demand for timber formwork.

While revenue increased by 5.20% in FYE 2020, our Group's cost of construction materials had decreased by RM6.09 million or 11.75%, from RM51.77 million in FYE 2019 to RM45.68 million in FYE 2020. This was because of the following:

- Cost incurred for concrete and cement materials had decreased from RM15.62 million in FYE 2019 to RM13.95 million in FYE 2020, representing a decrease of RM1.67 million or 10.69%. In addition, cost incurred for steel-based materials had decreased from RM13.05 million in FYE 2019 to RM8.27 million in FYE 2020, representing a decrease of RM4.78 million or 36.61%. These decreases were due to the completion of the structural stage of the majority of projects in the FYE 2019 which were carried over to the architectural stage in the FYE 2020. This resulted in a reduced use of concrete and cement materials as well as steel-based materials; and

- Cost incurred for timber and plywood had decreased from RM4.94 million for the FYE 2019 to RM3.09 million for the FYE 2020, representing a decrease of RM1.85 million or 37.45%. This was due to the decrease in average unit price by 3.80% and the reduced usage of timber and plywood as the projects were mainly in the architectural stage in FYE 2020 as mentioned above. For clarification purposes, timber and plywood are mainly used in the structural stage of construction as timber formwork.

Notwithstanding the abovementioned decrease in cost of construction materials, our Group's costs of brickwork materials and tiles had increased from RM12.22 million in FYE 2019 to RM15.28 million in FYE 2020, representing an increase of RM3.06 million or 25.04%. This was mainly due to an increase in architectural works which increased the utilisation of brickwork materials and tiles.

Our Group's main construction materials consumed, concrete and steel bars are subject to price fluctuations as a result of demand and supply conditions in the market. As such, any major fluctuations in the prices of these said materials will affect our profit margins to a certain extent. Please refer to Section 7.9 of this Prospectus for the types, sources and availability of material and services used in our construction activities and Section 9.1.8 of this Prospectus for further details on among others, risks of fluctuations in prices of concrete and steel bars.

(iii) Labour costs and overheads

Our Group's labour costs and overheads had increased from RM5.17 million in the FYE 2017 to RM5.79 million in the FYE 2018, representing an increase of RM0.62 million or 12.12%. This was mainly due to the increase demand for labour and overheads incurred arising from the overall increase construction activities undertaken by our Group during the FYE 2018.

However, despite the decrease in revenue for the FYE 2019, our Group's labour costs and overheads had increased to RM6.52 million in FYE 2019, representing an increase of RM0.73 million or 12.59%. This was mainly due to additional labour deployed to carry out works prior to the QLASSIC assessment of 182 DSTH Taman Austin Duta Project (which was completed in FYE 2019) in order to achieve higher QLASSIC scoring and qualify for the incentives prescribed by the developer of the project.

Our Group's labour costs and overheads had decreased in FYE 2020 to RM5.90 million despite the increase in revenue for the FYE 2020 from RM6.52 million in the FYE 2019, representing a decrease of RM0.62 million or 9.48%. This was mainly due to the absence of additional labour deployed in FYE 2020 to achieve higher scoring for the QLASSIC assessment like in FYE 2019 as mentioned above.

(iv) Rental of machinery and equipment

Our Group's cost of sales for our rental of machinery and equipment comprises of rental of cranes, lorries and loaders for our building construction activities from third party providers which accounted for 0.79%, 1.15%, 1.11% and 0.84% of our Group's overall cost of sales for the FYE 2017, FYE 2018, FYE 2019 and FYE 2020 respectively. These machinery and equipment were rented based on requirements of our building construction projects and on a monthly and ad-hoc basis. Its corresponding costs is apportioned based on the respective rental periods.

12.3.3 Segmental analysis by GP

Notwithstanding the increase in revenue for FYE 2018, our Group's total GP decreased from RM23.52 million for FYE 2017 to RM22.17 million for FYE 2018, representing a decrease of RM1.35 million or 5.75%. For FYE 2019, our Group's total GP had increased to RM22.94 million, representing an increase of RM0.77 million or 3.47%. As a result of our Group's increase in revenue for the FYE 2020, our Group's total GP had increased to RM27.48 million, representing an increase of RM4.54 million or 19.82%. The fluctuations of the Group's GP are mainly determined based on the profit margins of the construction projects negotiated or tendered for as well as subsequent cost savings/ overruns over the duration of the project.

(i) GP and GP margin by business activities

The breakdown of our total GP by business activities is set-out as follows:

GP[1]	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Building construction	**22,996**	**97.78**	**22,107**	**99.72**	**22,770**	**99.27**	**27,169**	**98.85**
Residential buildings	3,073	13.07	7,326	33.05	15,225	66.37	23,412	85.18
Non-residential buildings	19,923	84.71	14,781	66.67	7,545	32.90	3,757	13.67
Others	**523**	**2.22**	**61**	**0.28**	**167**	**0.73**	**315**	**1.15**
Civil engineering construction works	513	2.18	58	0.26	167	0.73	315	1.15
Rental of machinery and equipment	10	0.04	3	0.02	-[2]	-[2]	-	-
Total	**23,519**	**100.00**	**22,168**	**100.00**	**22,937**	**100.00**	**27,484**	**100.00**

GP margin[1]	Audited			
	FYE 2017 %	FYE 2018 %	FYE 2019 %	FYE 2020 %
Building construction	**19.06**	**12.83**	**14.53**	**16.58**
Residential buildings	10.38	9.29	13.01	16.15
Non-residential buildings	21.87	15.82	19.01	19.83
Others	**45.26**	**4.16**	**13.46**	**13.97**
Civil engineering construction works	45.62	3.98	13.45	13.97
Rental of machinery and equipment	31.94	33.28	30.35	-
Group GP margin	**19.30**	**12.76**	**14.52**	**16.54**

Notes:

(1) Inter-company transactions have been eliminated.

(2) Negligible.

<u>FYE 2018 compared to FYE 2017</u>

Despite the increase in our total revenue by 42.67%, our total GP decreased by RM1.35 million or 5.75% in FYE 2018, while our GP margin decrease from 19.30% for FYE 2017 to 12.76% for FYE 2018. This was mainly attributable to the decrease in GP of our construction of non-residential buildings which had decreased by 25.81% or RM5.14 million for FYE 2018 from RM19.92 million for the FYE 2017 to RM14.78 million for the FYE 2018. Its corresponding GP margin had also decreased from 21.87% for FYE 2017 to 15.82% for FYE 2018.

The decrease in GP from the construction of non-residential buildings was mainly attributable to the completion of Plentong High Rise Phase 1 Project in the FYE 2017 which had contributed a GP of RM9.77 million or 41.55% of our Group's GP for the FYE 2017.

In addition, the finalisation of the remaining cost incurred arising from value added services performed for the customer for a completed project of 3 blocks of commercial offices for a non-residential development project located at Mukim Tebrau (which was completed prior to the Financial Years Under Review) had resulted in a decrease of RM4.65 million in GP recognised for this project in the FYE 2018. This was partially offset by the increase in GP recognised from RM6.51 million in FYE 2017 to RM15.37 million in FYE 2018 for Plentong High Rise Phase 2 Project, representing an increase of RM8.86 million or 136.30%.

The GP margin for the FYE 2018 had decreased from 21.87% for the FYE 2017 to 15.82%. This was mainly due to the abovementioned completion of Plentong High Rise Phase 1 Project which contributed a GP margin of 24.56% in the FYE 2017. In addition, the lower GP margin for the FYE 2018 was also due to higher cost incurred as compared to the original budgeted cost for certain projects, such as 3 SSF Taman Perindustrian Maju Cemerlang Project and 10 double-storey detached factories located at I-Synergy Industrial Park, Mukim Senai (which was completed prior to the Financial Years Under Review), due to cost overrun arising from additional costs incurred for additional works done as value added services during the FYE 2018.

The decrease in GP and GP margin was also attributable to the decrease in GP recorded for our civil engineering construction works which decreased from RM0.51 million for FYE 2017 to RM0.06 million for FYE 2018, representing a decrease of RM0.45 million or 88.64%. Its GP margin had also decreased from 45.62% for FYE 2017 to 3.98% for FYE 2018. This was because during the FYE 2017, our Group had recognised a GP margin of 83.72% on a civil engineering construction works project for upgrading and refurbishment works at the Sebana Cove Clubhouse which contributed 52.52% of our Group's revenue recognised from this sub-segment. While this project was completed in FYE 2014, its project accounts were only finalised in the FYE 2017 upon the expiry of its defects and liabilities period. Upon the finalisation of accounts, the actual costs incurred for this project was lower than its budgeted costs and as such, we had in FYE 2017 adjusted for certain costs previously accounted for in the FYE 2016, resulting in the higher GP margin recognised.

The lower GP margin in the FYE 2018 was mainly attributable to a civil engineering construction works undertaken for the construction of a service road which services Plentong High Rise Phase 1 Project and Plentong High Rise Phase 2 Project. The said 2 non-residential building construction projects had contributed an overall GP margin of 23.38% during the Financial Years Under Review. As such, we had undertaken the mentioned civil engineering construction works project at a minimal profit margin as a value-added service to our customer.

The abovementioned decrease in GP was partially offset by the increase in GP recorded by the construction of residential buildings which had increased from RM3.07 million in FYE 2017 to RM7.33 million in FYE 2018, representing an increase of RM4.26 million or 138.45%. This increase was mainly in line with the increase in revenue recognised from this sub-segment. However, the GP margin from the construction of residential buildings decreased from 10.38% in FYE 2017 to 9.29% in FYE 2018 mainly due to lower margins negotiated from 5 projects namely 182 DSTH Taman Austin Duta Project, 39 TSSL Taman Nusa Sentral Project, 35 TSSL Taman Nusa Sentral Project, 143 RMMJ Taman Nusa Sentral Project and 66 PKJ Taman Nusa Sentral Project.

The GP and GP margins from our rental of machinery and equipment business during the financial years were negligible.

FYE 2019 compared to FYE 2018

Our total GP increased by 3.47% or RM0.77 million in FYE 2019 while our total GP margin improved from 12.76% in FYE 2018 to 14.52% in FYE 2019. This was mainly attributed to our building construction segment.

Our GP from our building construction segment increased by 3.00% or RM0.66 million in FYE 2019. Furthermore, the GP margin improved from 12.83% in FYE 2018 to 14.53% in FYE 2019. These were mainly attributed to the increase in GP recorded by our Group for the construction of residential buildings for FYE 2019, registering an increase of RM7.90 million or 107.81%. This was in line with our increase in revenue recognised for the same period for the same sub-segment.

The increase in GP was partially offset by the decrease in GP from our Group's construction of non-residential buildings, which had decreased from RM14.78 million in FYE 2018 to RM7.55 million in FYE 2019, representing a decrease of RM7.23 million or 48.95%. This was in line with the decrease in revenue recognised during the financial year under review pursuant to the percentage of completion from our construction of non-residential buildings.

Notwithstanding the decrease in GP, our construction of non-residential buildings sub-segment achieved an improved GP margin from 15.82% in FYE 2018 to 19.01% in FYE 2019, contributing to the improvement of our overall GP margin. This said improvement was mainly due to the decrease in average prices of major raw materials consumed, namely steel bars and concrete. During the FYE 2019, on average, prices of steel bars had decreased by 14.48% while concrete had decreased by 3.06%.

In addition, our civil engineering construction works had also recorded an improved GP and GP margin despite decreasing revenues for the FYE 2019. Its GP had increased from RM0.06 million in FYE 2018 to RM0.17 million in FYE 2019, representing an increase of RM0.11 million or 186.21%. Its GP margin had improved from 3.98% in FYE 2018 to 13.45% in FYE 2019. The lower GP margin for the FYE 2018 was mainly due to a civil engineering construction works project undertaken for the construction of a service road as a value-added service to our customer. The improved GP and GP margin for the FYE 2019 are also attributable to better profit margins recorded for rectification works done at various sites.

The GP and GP margins from our rental of machinery and equipment business during the financial years were negligible.

FYE 2020 compared to FYE 2019

As a result of the increase in our revenue of 5.20% for the FYE 2020 as compared to the FYE 2019, our total GP increased from RM22.94 million in FYE 2019 to RM27.48 million in FYE 2020, representing an increase of 19.82% or RM4.54 million. Our total GP margin further improved from 14.52% in FYE 2019 to 16.54% in FYE 2020. This was mainly attributed to our building construction segment.

Our GP from our building construction segment increased from RM22.77 million in FYE 2019 to RM27.17 million in FYE 2020, representing an increase of RM4.40 million or 19.32%. Furthermore, the GP margin improved from 14.53% in FYE 2019 to 16.58% in FYE 2020. These continued to be mainly attributed to the increase in GP recorded by our Group for the construction of residential buildings for FYE 2020, registering an increase of RM8.19 million or 53.78% from RM15.22 million in FYE 2019 to RM23.41 million in FYE 2020. This was in line with our increase in revenue recognised for the same period for the same sub-segment. GP margins for our construction of residential buildings sub-segment had improved from 13.01% in FYE 2019 to 16.15% in FYE 2020. This was mainly due to successful negotiations with sub-contractors resulting in improved profit margins after the projects were secured.

In addition, our civil engineering construction works had also recorded an improved GP and GP margin in line with increased revenue in FYE 2020. Its GP had increased from RM0.17 million in FYE 2019 to RM0.32 million in FYE 2020, representing an increase of RM0.15 million or 88.72%. Its GP margin had remained quite consistent at 13.45% in FYE 2019 and 13.97% in FYE 2020.

The said increase in GP was partially offset by the decrease in GP from our Group's construction of non-residential buildings, which had decreased from RM7.55 million in FYE 2019 to RM3.76 million in FYE 2020, representing a decrease of RM3.79 million or 50.20%. This was in line with the decrease in revenue recognised in FYE 2020 pursuant to the percentage of completion from our construction of non-residential buildings. Notwithstanding the decrease in GP, the GP margin for our construction of non-residential buildings had remained quite consistent at 19.01% in FYE 2019 and 19.83% in FYE 2020.

There was no GP derived from third-party customers in FYE 2020 for our rental of machinery and equipment segment while the GP and GP margins from this sub-segment during the FYE 2019 were negligible

(ii) GP by geographical markets

For the Financial Years Under Review, all our GP was derived from the state of Johor.

12.3.4 Other income

	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
Other income	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Gain on disposal of property, plant and equipment	174	25.44	1	0.16	44	6.22	7	1.52
Finance income	341	49.85	353	57.96	207	29.28	150	32.68
Rental income	169	24.71	211	34.65	188	26.59	-	-
Insurance claims	-	-	44	7.23	256	36.21	-	-
Penalties imposed on sub-contractors	-	-	-	-	12	1.70	5	1.09
Government grants	-	-	-	-	-	-	255	55.56
Back charge income	-	-	-	-	-	-	37	8.06
Others	-	-	-	-	-	-	5	1.09
Total	**684**	**100.00**	**609**	**100.00**	**707**	**100.00**	**459**	**100.00**

FYE 2018 compared to FYE 2017

Our Group's other income for the FYE 2018 had decreased by RM0.07 million or 10.96% from RM0.68 million for the FYE 2017 to RM0.61 million for the FYE 2018. This decrease was mainly attributable to the gain in disposal of property, plant and equipment where we had disposed motor vehicles in the FYE 2017 resulting in a gain of RM0.17 million. This was partially offset by the increase in rental income as the Group had managed to rent out its investment properties for a longer duration in the FYE 2018 as compared to FYE 2017. The investment properties are the 5 condominium units referred to in Section 10.1(ii) of this Prospectus that were sold to Haily Holdings in FYE 2019. For further details, please refer to Section 10.1(ii) of this Prospectus. Rental income for the FYE 2018 had increased by RM0.04 million or 24.85%, from RM0.17 million for the FYE 2017 to RM0.21 million for the FYE 2018.

FYE 2019 compared to FYE 2018

Other income for the FYE 2019 had increased by RM0.10 million or 16.09% from RM0.61 million for the FYE 2018 to RM0.71 million for the FYE 2019. This increase was mainly attributable to the insurance claims mainly arising from the theft of cable used at our construction sites. This was partially offset by the decrease in finance income recognised during the FYE 2019 of RM0.21 million as compared to RM0.35 million for the FYE 2018. This was due to the decrease in the overall interest rates for overnight deposits.

FYE 2020 compared to FYE 2019

Our Group's other income had decreased from RM0.71 million in FYE 2019 to RM0.46 million in FYE 2020, representing a decrease of RM0.25 million or 35.08%. This was mainly because there were no incidents which resulted in insurance claims in FYE 2020. In addition, we had also disposed our investment properties in the previous financial year. Insurance claims and rental income had contributed RM0.26 million and RM0.19 million respectively in FYE 2019. This decrease was partially offset by the government grants received in the form of wage subsidies of RM0.26 million received during the FYE 2020 as part of the government's assistance to businesses as part of its COVID-19 stimulus package.

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12.3.5 Administrative expenses

Administrative expenses	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Staff costs	5,043	66.97	7,557	69.95	8,400	72.26	8,885	67.17
Depreciation	963	12.79	1,081	10.01	1,295	11.14	1,318	9.96
Rental, upkeep and maintenance	442	5.87	599	5.55	461	3.97	568	4.29
Selling and marketing expenses	318	4.22	363	3.36	443	3.81	362	2.74
Professional fees	257	3.41	136	1.26	206	1.77	1,178	8.90
Insurance premiums	45	0.60	63	0.58	69	0.59	84	0.64
Foreign labour levy	127	1.69	377	3.49	31	0.27	26	0.20
Corporate social responsibility	119	1.58	115	1.06	139	1.20	84	0.64
Fees to authorities	52	0.69	280	2.59	172	1.48	338	2.55
Utilities	37	0.49	58	0.54	94	0.81	81	0.61
Other administrative expenses	127	1.69	174	1.61	314	2.70	304	2.30
Total	**7,530**	**100.00**	**10,803**	**100.00**	**11,624**	**100.00**	**13,228**	**100.00**

Our administrative expenses generally comprised the following:

(i) Staff costs including staff salaries, wages, bonuses, employee contributions, directors' fees and remunerations and other staff related expenses;

(ii) Depreciation on property, plant and equipment as well as investment properties owned by our Group;

(iii) Rental of office, hostel and office equipment together with its corresponding upkeep and maintenance;

(iv) Selling and marketing expenses, which mainly consist of advertisement fees, purchase of tender documents, travelling and transportation expense, mileage and petrol claims, and related expenses;

(v) Professional fees paid for audit, company secretarial, legal, tax and other professional services such as professional fees incidental to our Listing;

(vi) Insurance premiums paid for property, plant and equipment owned by our Group;

(vii) Foreign labour levy paid to secure permits for our foreign labour;

(viii) Corporate social responsibility, which includes donations, contributions, gifts, sponsorship and staff welfare;

(ix) Fees to authorities, which consists of fees paid for our business licence, permits and registration, goods and services tax (up to 1 June 2018, being the effective date for the abolishment of the said tax in Malaysia) as well as other fees paid to various regulatory authorities in the ordinary course of our business operations and penalties incurred;

(x) Utilities which include expenses incurred for electricity, water as well as other utilities; and

(xi) Other administrative expenses, which mainly consist of printing and stationery, entertainment expenses and training expenses.

FYE 2018 compared to FYE 2017

Our Group's administrative expenses had increased from RM7.53 million for the FYE 2017 to RM10.80 million for the FYE 2018, representing an increase of RM3.27 million or 43.47%. This was mainly attributable to the increase in staff costs by RM2.52 million or 49.85%, from RM5.04 million in the FYE 2017 to RM7.56 million in the FYE 2018. This was due to the increase from 69 employees as at FYE 2017 to 82 employees as at FYE 2018 as well as the under provision of directors' fees of RM0.50 million which was not provided for in the FYE 2017 and subsequently recognised in the FYE 2018.

In addition, foreign labour levy and fees to authorities paid during the FYE 2018 had increased by RM0.25 million or 196.85% and RM0.23 million or 438.46% respectively. Foreign labour levy had increased from RM0.13 million for FYE 2017 to RM0.38 million for FYE 2018 while fees paid to authorities had increased from RM0.05 million for FYE 2017 to RM0.28 million for FYE 2018. The increase in foreign labour levy paid was due to the increase in foreign labour engaged for construction works while the increase in fees paid to authorities was because of a tax penalty incurred of RM0.21 million for the year of assessment between 2013 and 2016. Please refer to Section 7.24.1 of this Prospectus for further information on the said tax penalty.

FYE 2019 compared to FYE 2018

Our Group's administrative expenses had increased by RM0.82 million or 7.60% from RM10.80 million in the FYE 2018 to RM11.62 million in the FYE 2019. This was mainly attributable to the increase in staff costs which increased from RM7.56 million for the FYE 2018 to RM8.40 million for the FYE 2019, representing an increase of RM0.84 million or 11.16%. This was due to the further increase in number of employees to 88 employees during the FYE 2019.

In addition to the above, our rental, upkeep and maintenance of RM0.44 million for the FYE 2017, RM0.60 million for the FYE 2018 and RM0.46 million for the FYE 2019 includes rental expenses paid to Haily Holdings, our Promoter and substantial shareholder, for our Head Office and two units of double-storey semi-detached houses for accommodation provided to certain Directors as benefits-in-kind. While the rental of our Head Office was not entered into on an arm's length basis, we have derived rental savings of RM0.13 million and RM0.25 million for the FYE 2018 and FYE 2019 respectively. As there is no comparable information, we are unable to ascertain the comparable market rental rates for the rental of the two units of double-storey semi-detached houses. Nonetheless, for information purposes, the rental expenses incurred for the rental of the two units of double-storey semi-detached houses was RM0.19 million for each of the Financial Years Under Review. Please refer to Section 10.1 of this Prospectus for further information on our Group's related party transactions during the Financial Years Under Review.

FYE 2020 compared to FYE 2019

Our Group's administrative expenses had increased by RM1.60 million or 13.80% from RM11.62 million in the FYE 2019 to RM13.22 million in the FYE 2020. This was mainly attributable to the increase in professional fees incurred which increased from RM0.21 million in the FYE 2019 to RM1.18 million in the FYE 2020, representing an increase of RM0.97 million or 471.84%. This was mainly due to the one-off professional fees incurred pursuant to our Listing and recognised in the FYE 2020 of RM0.95 million.

In addition to the above, our Group's increase in administrative expenses was due to the increase in staff costs and fees to authorities, which increased from RM8.40 million and RM0.17 million in FYE 2019 to RM8.89 million and RM0.34 million in FYE 2020, representing an increase of RM0.49 million or 5.77% and RM0.17 million or 96.51% respectively. The increase in staff costs was due to the further increase in number of employees to 97 during the FYE 2020 while the increase in fees to authorities was due to the increase in stamp duties paid of RM0.22 million mainly for the additional financing facilities obtained.

12.3.6 Finance costs

	Audited							
	FYE 2017		FYE 2018		FYE 2019		FYE 2020	
Finance costs	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Finance lease	67	100.00	33	100.00	-	-	-	-
Lease liabilities	-	-	-	-	90	100.00	92	43.40
Revolving credit	-	-	-	-	-	-	25	11.79
Invoice financing	-	-	-	-	-	-	6	2.83
Bank overdraft	-	-	-	-	-	-	89	41.98
Total	**67**	**100.00**	**33**	**100.00**	**90**	**100.00**	**212**	**100.00**

Finance costs consist of interest charged on facilities granted by financial institutions, namely finance lease, lease liabilities. revolving credit, invoice financing and bank overdraft. Our finance costs constituted 0.05%, 0.02%, 0.06% and 0.13% of our Group's total revenue for FYE 2017, FYE 2018, FYE 2019 and FYE 2020 respectively.

FYE 2018 compared to FYE 2017

Our finance costs for the FYE 2018 decreased from RM0.07 million in the FYE 2017 to RM0.03 million in FYE 2018. This was mainly due to the repayment of finance lease facilities during the FYE 2018 thus reducing the total interest expense.

FYE 2019 compared to FYE 2018

Our finance costs for the FYE 2019 increased to RM0.09 million in the FYE 2019 from RM0.03 million for the FYE 2018. It should be noted that this was attributable solely to lease liabilities which were recognised as a result of new accounting standards adopted pursuant to MFRS 16.

FYE 2020 compared to FYE 2019

Our finance costs for the FYE 2020 increased to RM0.21 million in the FYE 2020 from RM0.09 million for the FYE 2019. The increase was due to the additional financing facilities utilised by our Group, namely revolving credit, invoice financing and bank overdraft, as working capital for our on-going building construction projects during the FYE 2020.

12.3.7 Income tax expenses

The breakdown of our income tax expenses for the FYE 2017, FYE 2018, FYE 2019 and FYE 2020 are as follows:

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
Income tax expenses (RM'000)	4,015	3,454	3,044	4,059
Effective tax rate (%)	24.18	28.93	25.52	27.99
Statutory tax rate (%)	24.00	24.00	24.00	24.00

Our Group's effective tax rate for the FYE 2017 of 24.18% was marginally higher than the statutory tax rate of 24.00% mainly due to certain expenses incurred which are not deductible for tax purposes such as construction costs accrued for the completed projects during its defects and liabilities period, depreciation for non-qualifying property, plant and equipment, professional fees, entertainment expenses as well as upkeep and maintenance expenses incurred for unrented investment properties.

Our Group's effective tax rate for the FYE 2018 of 28.93% was higher than the statutory tax rate of 24.00% due to under provision of tax for year of assessment 2013 to 2016 of RM0.46 million. Without the said under provision for the year assessment 2013 to 2016, the effective tax rate of our Group would have been 25.09%. This is mainly due to certain expenses incurred which are not deductible for tax purposes such as depreciation for non-qualifying property, plant and equipment, tax penalty for the under provision for the year assessment 2013 to 2016 (please refer to Section 7.24.1 of this Prospectus for further information on our tax penalty), entertainment expenses, as well as upkeep and maintenance expenses incurred for unrented investment properties.

Our Group's effective tax rate for the FYE 2019 of 25.52% was higher than the statutory tax rate of 24.00% mainly due to certain expenses incurred which are not deductible for tax purposes such as depreciation for non-qualifying property, plant and equipment, upkeep and maintenance expenses incurred for unrented investment properties and entertainment expenses.

Our Group's effective tax rate for the FYE 2020 of 27.99% was higher than the statutory tax rate of 24.00% mainly due to certain expenses incurred which are not deductible for tax purposes such as depreciation for non-qualifying property, plant and equipment, entertainment expenses and one-off professional fees incurred pursuant to our Listing.

12.3.8 PBT and PBT margin

	Audited			
	FYE 2017	**FYE 2018**	**FYE 2019**	**FYE 2020**
PBT (RM'000)	16,606	11,941	11,930	14,503
PAT (RM'000)	12,591	8,487	8,886	10,444
PBT margin (%)	13.63	6.87	7.55	8.73
PAT margin (%)	10.33	4.88	5.63	6.29

<u>FYE 2018 compared to FYE 2017</u>

The PBT for the FYE 2018 had decreased to RM11.94 million from RM16.61 million for the FYE 2017, representing a decrease of RM4.67 million or 28.09%. This was mainly due to decrease in GP margin recorded despite the increase in revenue during the FYE 2018 as discussed in Section 12.3.3 of this Prospectus. In addition, our Group had incurred additional administrative expenses during the FYE 2018 which had resulted in the PBT margin decreasing from 13.63% in the FYE 2017 to 6.87% in the FYE 2018. Please refer to Section 12.3.5 of this Prospectus for further information on our administrative expenses for the Financial Years Under Review.

<u>FYE 2019 compared to FYE 2018</u>

The PBT for the FYE 2019 had marginally decreased to RM11.93 million from RM11.94 million recorded in FYE 2018. This marginal decrease was mainly attributable to the increase in administrative expenses incurred during the FYE 2019 as discussed in Section 12.3.5 of this Prospectus. This was slightly offset by the improvement in GP margin recorded during the FYE 2019 as discussed in Section 12.3.3 of this Prospectus. This had translated into an improved PBT margin of 7.55% as compared to 6.87% in the previous financial year.

<u>FYE 2020 compared to FYE 2019</u>

The PBT for the FYE 2020 had increased to RM14.50 million from RM11.93 million in FYE 2019, representing an increase of RM2.57 million or 21.57%. The PBT margin for the FYE 2020 had also improved to 8.73% as compared to 7.55% in the prior financial year. This increase was mainly attributable to the increase in GP during the FYE 2020 as discussed in Section 12.3.3 of this Prospectus. This was partially offset by the increase in administrative expenses incurred during the FYE 2020 as discussed in Section 12.3.5 of this Prospectus.

12.4 SIGNIFICANT FACTORS AFFECTING OUR GROUP'S OPERATIONS AND FINANCIAL PERFORMANCE

Our Group's business operations and financial conditions have been and will continue to be affected by internal and external factors including, but not limited to, the following:

(i) Our business strategies and plans

We intend to capitalise on our established track record as an experienced building contractor in Johor and continue to focus on our core competency in building construction. As at 10 June 2021, we have 18 on-going building construction projects and 2 civil engineering related construction projects with a total unbilled order book of RM249.58 million. These projects are located in Johor Bahru, Kulai and Pontian in Johor and are expected to complete progressively between 2021 and 2023. As stated in Section 7.3.2 of this Prospectus, we continued to secure new building construction projects in 2021, namely 3 new residential building construction projects, namely the 122 DSTH Bandar Putra Project, 217 DSTH Taman Mutiara Maju Project and 206 DSTH Gelang Patah Project, as well as 3 new non-residential building construction projects, namely the 147 DSTV Aurora Sentral Project, Aurora Sentral Clubhouse Project and SJK (C) Sim Mow Yu Project.

Further thereto, we intend to further expand our reach within Johor by securing new projects in other districts within the state. In addition, we plan to purchase additional construction machinery and equipment to facilitate better scheduling of our construction work when the projects require concurrent usage and in anticipation of future growth. Please refer to Section 7.23 of this Prospectus for further information on our Group's business strategies and plans.

Notwithstanding the above, our long-term sustainability, business growth and financial performance may be adversely affected in the event we are unable to replenish our order book sufficiently and in a timely manner. Due to the competition faced within the construction industry, we may be required to provide competitive pricing as part of a bidding or negotiation process in order to secure a contract and thus may affect our Group's overall profitability. In addition, our business strategies and plans has taken into consideration the slowdown in the local economy as seen with the COVID-19 pandemic.

However, the implementation of such business strategies and plans may be subject to any other adverse development or uncertainties in the political, economic or regulatory conditions in Malaysia which could unfavourably affect the construction industry and in turn our financial and business prospects.

(ii) Delay in the completion of projects resulting in adverse impact to our business and financial performance

The timely completion of our construction projects are dependent on several external factors that are beyond our control such as the timely receipt of requisite licenses, permits or approvals from regulatory authorities, availability of equipment and labour, availability of financing and satisfactory performance of any subcontractors appointed, unexpected soil conditions, safety and site condition, shortage of raw materials and labour, adverse weather conditions and adverse changes to government policies. Any delays in the timeline of a project will usually result in project cost overruns, attract negative publicity and result in legal uncertainties such as potential liquidated damages claims from our customers.

Further to the above, the Malaysian government had implemented the MCO and subsequently the CMCO as a preventive measure in response to the outbreak of COVID-19. Our Group's construction activities were suspended since 18 March 2020 and resumed on 18 May 2020. As a result, our timelines for certain projects have been delayed. As at the LPD, we have received written confirmations from our customers or architects respectively for the EOT for 13 out of 14 of our completed and on-going building construction projects that have been delayed by the work stoppages and slowdown during the MCO and CMCO periods. Please refer to Section 7.17(a) of this Prospectus for the summary of our Group's on-going projects pending approval of EOT as at the LPD. Further, there is no dispute brought against us by our customers in respect to the delay of the initial completion date for the projects.

Nevertheless, in compliance with the Full MCO 3.0, our on-site construction activities have been temporarily suspended. In the event of a prolonged situation, this may result in delays for our projects and we may have to seek extension of time for our projects. In the event the request for EOT is rejected by our customers, we may be subject to potential LAD claims based on the terms of the letters of award.

In addition, the COVID-19 Act has been gazetted on 23 October 2020. The COVID-19 Act seeks to offer temporary relief to businesses and individuals who are unable to perform their contractual obligations due to COVID-19. The COVID-19 Act provides that the inability of any parties to perform any contractual obligations arising from construction work contracts amongst others shall not give rise to the other party or parties exercising his or their rights under the contract and encourages parties to settle their disputes by way of mediation, in respect of any inability of any party or parties to perform any contractual obligations arising from any categories of contracts as specified in the COVID-19 Act.

The COVID-19 Act (Extension of Operation) Order 2020 further extended the date of operation for inability to perform contractual obligations from 1 January 2021 to 31 March 2021 and further extended for a period from 1 April 2021 to 30 June 2021 pursuant to the Temporary Measures for Reducing the Impact of Coronavirus Disease 2019 (COVID-19) (Extension of Operation) Order 2021. As such any disputes in respect of any inability to perform any contractual obligations with or by our customers, suppliers, sub-contractors arising from construction related matters from 18 March 2020 to 30 June 2021 may be settled by mediation.

Please refer to Sections 7.17, 9.1.4 and 9.2.3 of this Prospectus for further information on the interruptions to business and operations as well as the risks arising from delays in the completion of projects and COVID-19 Act, respectively.

(iii) Shortages and/or fluctuations in prices of construction materials

Our construction materials consist mainly of concrete and cement materials, steel based materials, brickwork materials and tiles, timber and plywood, doors, windows and other related construction materials required in our construction activities. We are faced with the risk of whether we are able to secure sufficient supply of construction materials for our projects and at prices which will enable us to maintain our budgeted profit margins. In addition, certain construction materials such as steel and cement are subject to global market price fluctuations and if imported, will be subjected to foreign currency fluctuations as well. If we are unable to obtain or source the required construction materials or its replacements and/or substitutes in the event of a shortage or any adverse fluctuations in the prices of construction materials, our business operations may be adversely affected.

Please refer to Section 9.1.8 of this Prospectus for further information.

(iv) Dependency on certain major customers

Certain of our major customers have contributed substantially to our consolidated revenue for each of the Financial Years Under Review, the highest percentage of which are 64.63% (FYE 2017), 40.40% (FYE 2018), 25.12% (FYE 2019) and 25.76% (FYE 2020) of revenue. In addition, 75.13% of our total unbilled contract value as at 10 June 2021 is expected to be derived from 4 major customers, namely Country View Resources Sdn Bhd, Mandy Corporation Sdn Bhd, Danau Homes Sdn Bhd and Austin Senibong Development Sdn Bhd. As such, we are, to a certain extent, dependent on the continuous relationship with our major customers and that these contracts awarded will not be terminated. Notwithstanding the above, the proportion of revenue from major customers may differ each financial year depending on the duration and progress of each project undertaken as well as the amount of potential new contracts to be secured.

Nonetheless, our financial performance may also be materially and adversely affected if we were to lose one or more of our major customers without replacing the contracts loss or in the event of encountering difficulties in collection of the amounts owed by the major customers.

Please refer to Section 9.1.9 of this Prospectus for further information.

(v) Delay in collections or non-recoverability of trade receivables

As mentioned in Section 12.4(ii) above, the timelines of certain of our projects have been delayed due to the MCO and CMCO implemented as preventive measures in response to the COVID-19 pandemic. As such, the timing in which we are able to bill our customers for work completed has also been delayed accordingly. With the implementation of the Full MCO 3.0 commencing on 1 June 2021, this may have similar implications to the Group for the FYE 2021.

In addition, our customers, who are mainly property developers, may have experienced a decline in their business performance due to the current property overhang situation, dampened property market and the outbreak of COVID-19. As a result, there has been a delay in collections from certain customers and we are exposed to risk of delays in collection or non-recoverability of trade receivables. Correspondingly, we have negotiated for a delay in payment to certain suppliers in our efforts to preserve cashflow during this period. This may result in a material adverse impact on our financial condition, our ability to pay our suppliers and potentially delaying the progress of our projects as well as our ability to service our bank borrowings comprising general line, blanket contract financing line and revolving credit facilities as set out in Section 12.5(iii) of this Prospectus.

We experienced an increase in the trade receivables turnover period from FYE 2019 to FYE 2020 and our trade payables turnover period from FYE 2019 to FYE 2020 had also increased. There were no bad debts written off or provisions made for doubtful debts during the Financial Years Under Review. Please refer to Section 12.5(xi)(a) of this Prospectus for further details.

(vi) Impact of the overall Malaysian economy and Malaysia's construction sector

In 2020, the real GDP of Malaysia declined by 5.6% with moderated growth of 0.7% in the first quarter (Q1) but declined by 17.1% in the second quarter (Q2) due to broad-based weakness in exports, production and domestic demand resulting from the introduction of containment measures to curb the rise in COVID-19 cases. In 2020, the real GDP of the construction industry declined by 19.4% reflecting reduced work capacity in compliance to containment measures, labour shortages due to international border closures, supply chain disruptions and site shutdowns following the COVID-19 pandemic. The construction industry experienced a decline of 7.9% and 44.5% in the Q1 and Q2 of 2020 compared to the corresponding periods in 2019. The decline resulted from the suspension of almost all construction works in March 2020 and April 2020.

Nonetheless, it is noted that the Malaysian economy gradually recovered in the second half (H2) of 2020 as the economy re-opened and economic and social activities partially resumed. Similarly, the construction industry also improved in the H2 2020 given better clarity and compliance with operating guidelines, more pervasive COVID-19 testing on workers and extended hours for construction activity. In addition, the rollout of stimulus packages supported many small-scale projects and spurred growth in the special trade subsector in H2 2020. Activities in the non-residential and residential sectors benefitted from new housing projects and ramp-up in progress of projects due for completion in the H2 2020, while the civil engineering sub-sector was supported by continued progress in large infrastructure projects. According to BNM, Malaysia's economy is expected to grow within a range of 6.0% to 7.5% while the construction industry is expected to grow by 13.4% in 2021. This will be supported by growth factors including large public projects such as MRT, and high multiplier smaller projects, as well as recovery on commodity production.

(Source: IMR Report)

(vii) Impact of foreign exchange

Our construction contracts are solely denominated in RM. However, it should be noted that certain construction materials purchased by our Group are imported and any such adverse fluctuations in prices of such materials may be passed on to us by our suppliers.

Nonetheless, there is no direct impact on our Group's operating profits resulting from foreign exchange fluctuations for the Financial Years Under Review.

(viii) Impact of inflation

Our financial performance for the Financial Years Under Review was not materially affected by the impact of inflation.

(ix) Impact of interest rates

For the Financial Years Under Review, our financial performance was not materially affected by the fluctuations of interest rates. Please refer to Note 25(b)(iii) in the Accountants' Report set out in Section 13 of this Prospectus for sensitivity analysis on our PAT to changes in interest rates.

(x) Impact of Government, economic, fiscal and monetary policies

Our financial and business prospects, and the prospects of the industry in which we operate, will depend to some degree on the development on the political, economic and regulatory conditions in Malaysia. Please refer to Section 9.2.3 of this Prospectus for further information on the risks relating to changes in political, economic and regulatory policies in Malaysia which may adversely affect our financial performance.

During the Financial Years Under Review, we have not experienced any adverse political, economic and regulatory changes that have had a direct impact on our business operations.

12.5 LIQUIDITY AND CAPITAL RESOURCES

(i) Working capital

Our operations have been financed from a combination of internal and external sources. Internal sources comprised shareholders' equity and cash generated from the business operations while external sources are banking facilities from financial institutions. The principal utilisation of these funds has been for our business operations and growth.

Based on our statement of financial position as at 31 December 2020, our Group has cash and cash equivalents of RM21.32 million and total borrowings of RM7.57 million. As at 31 December 2020, our Group's gearing ratio was 0.15 times and current ratio was 1.57 times. As at the LPD, our Group has banking facilities available amounting to RM59.00 million, of which approximately RM7.73 million has been utilised/ drawn down for our on-going building construction projects and RM3.63 million has been set aside as bank guarantees for our performance bonds and tender bonds.

Our Directors are of the opinion that after taking into consideration the cash and cash equivalents, the expected profits to be generated from our operations, the amount that is available under our existing banking facilities, as well as proceeds expected to be raised from the Public Issue, we will have adequate working capital to meet our present and foreseeable requirements for at least a period of 12 months from the date of this Prospectus.

(ii) Cash flows

The following is a summary of our Group's combined statements of cash flows for FYE 2017, FYE 2018, FYE 2019 and FYE 2020. This should be read in conjunction with the Accountants' Report as set out in Section 13 of this Prospectus.

	Audited			
	FYE 2017 RM'000	**FYE 2018 RM'000**	**FYE 2019 RM'000**	**FYE 2020 RM'000**
Net cash flows from operating activities	8,479	6,139	8,840	8,662
Net cash flows from/(used in) investing activities	10,857	(480)	4,518	(2,826)
Net cash flows used in financing activities	(12,526)	(4,989)	(8,149)	(3,868)
Net increase in cash and cash equivalents	6,810	670	5,209	1,968
Cash and cash equivalents at the beginning of the financial year	6,658	13,468	14,138	19,347
Cash and cash equivalents at the end of the financial year[(1)]	**13,468**	**14,138**	**19,347**	**21,315**

Note:

(1) Components of cash and cash equivalents are set out below:

	Audited			
	FYE 2017 RM'000	***FYE 2018 RM'000***	***FYE 2019 RM'000***	***FYE 2020 RM'000***
Cash and bank balances	*13,404*	*14,072*	*19,279*	*25,935*
Short-term deposits	*914*	*938*	*964*	*1,219*
	14,318	*15,010*	*20,243*	*27,154*
Less: Pledged deposits	*(850)*	*(872)*	*(896)*	*(1,219)*
Less: Bank overdraft	*-*	*-*	*-*	*(4,620)*
	13,468	***14,138***	***19,347***	***21,315***

FYE 2017

Net cash flows from operating activities

Our Group recorded net cash flows from operating activities of RM8.48 million where cash receipts were mainly from customers, offset by cash paid to suppliers and employees, and tax payments.

Cash receipts from customers amounted to RM89.04 million. The major cash receipts were from the following customers:

- RM28.23 million for the construction of Plentong High Rise Phase 2 Project;

- RM19.50 million for the construction of Plentong High Rise Phase 1 Project; and

- RM15.92 million for the construction of 116 DSTH Meridin East – Parcel 1E Project.

The remaining receipts of approximately RM25.39 million were contributed by projects of which individually contributed less than 5% of the total receipts for the FYE 2017.

Our Group's cash payments comprised mainly of the following:

- a total of cash payment of RM69.72 million for suppliers and subcontractors for our building construction projects including subcontracted building works, M&E works and other subcontracted services and purchase of building and construction materials;

- payment of labour costs and staff salaries of RM8.30 million including salaries and allowances, statutory contributions for employees (such as contribution to the Employees Provident Fund (EPF) and Pertubuhan Keselamatan Sosial (PERKESO)), directors remuneration and bonus; and

- tax payment of RM3.81 million.

Net cash flows from investing activities

Our Group's net cash flows from investing activities amounted to RM10.86 million. This was mainly attributed to the withdrawal of deposits of RM10.67 million which was utilised for working capital. In addition, our Group received RM0.34 million from finance income generated from our deposits with financial institutions as well as RM0.31 million in proceeds from disposal of property, plant and equipment which were mainly motor vehicles disposed.

The net cash flows from investing activities was partially offset by RM0.24 million used for the purchase of property, plant and equipment, mainly the purchase of motor vehicles and RM0.23 million used for the renovation and refurbishment of our investment properties.

Net cash flows used in financing activities

Our Group's net cash flows used in financing activities amounted to RM12.53 million. This was mainly attributed to cash outflow of RM10.01 million for the payment of dividends, increase in advances to a related party of our Group (i.e., Haily Holdings, which was the holding company of Haily Construction and Haily Machinery prior to the Internal Reorganisation Exercise), of RM0.84 million and RM1.61 million utilised for the repayment of banking facilities.

<u>FYE 2018</u>

Net cash flows from operating activities

Our Group recorded net cash flows from operating activities of RM6.14 million where cash receipts were mainly from customers, offset by cash paid to suppliers and employees, and tax payments.

Cash receipts from customers amounted to RM147.91 million. Some of the major cash receipts were from the following customers:

- RM60.24 million for the construction of Plentong High Rise Phase 2 Project;

- RM17.43 million for the construction of 182 DSTH Taman Austin Duta Project;

- RM13.89 million for the construction of 90 DSTH Meridin East – Parcel 1D Project; and

- RM8.05 million for the construction of 70 DSSD Taman Impiana Project.

The remaining receipts of approximately RM48.30 million were contributed by projects of which individually contributed less than 5% of the total receipts during the FYE 2018.

Our Group had also received income tax refunds of RM0.71 million during the FYE 2018 for the overpayment of tax for prior financial years.

Our Group's cash payments comprised mainly of the following:

- a total of cash payment of RM123.64 million for suppliers and subcontractors for our building construction projects including subcontracted building works, M&E works and other subcontracted services, and purchase of building and construction materials, as well as professional and related cost;

- payment of labour costs and staff salary of RM9.88 million including salaries and allowances, statutory contributions for employees (such as contribution to the Employees Provident Fund (EPF) and Pertubuhan Keselamatan Sosial (PERKESO)), directors remuneration and bonus; and

- tax payment of RM4.17 million.

Net cash flows used in investing activities

Our Group's net cash flows used in investing activities amounted to RM0.48 million. This was mainly attributed to the further acquisition of property, plant and equipment of RM0.55 million, mainly for the purchase of furniture and fittings for the head office and motor vehicles, as well as RM0.26 million for the renovation and refurbishment of our investment properties.

This was partially offset by interest received of RM0.35 million from our deposits with financial institutions.

Net cash flows used in financing activities

Our Group's net cash flows used in financing activities amounted to RM4.99 million. This was mainly attributed to the dividend paid of RM5.25 million and the repayment of banking facilities of RM0.70 million. This was partially offset by the inflow of cash received from the repayment of RM0.99 million from a related party of our Group (i.e., Haily Holdings).

FYE 2019

Net cash flows from operating activities

Our Group recorded net cash flows from operating activities of RM8.84 million where cash receipts were mainly from customers, offset by cash paid to suppliers and employees, and tax payments.

Cash receipts from customers amounted to RM139.25 million. Some of the major cash receipts were from the following customers:

- RM16.68 million for the construction of 66 TSCH Taman Nusa Sentral Project;

- RM15.96 million for the construction of 236 DSTH Meridin East – Parcel 1H Project;

- RM14.83 million for the construction of the Frontier Dormitory Project;

- RM13.64 million for the construction of Plentong High Rise Phase 2 Project;

- RM10.23 million for the construction of Indahpura Business Central (Phase 1) Project; and

- RM7.50 million for the construction of 182 DSTH Taman Austin Duta Project.

The remaining receipts of approximately RM60.41 million were contributed by projects of which individually contribute less than 5% of the total receipts during the FYE 2019.

Our Group had also received income tax refunds of RM3.26 million during the FYE 2019 arising from overpayment in prior financial years.

Our Group's cash payments comprised mainly of the following:

- a total of cash payment of RM113.50 million for suppliers and subcontractors for our building construction projects including subcontracted building works, M&E works and other subcontracted services, and purchase of building and construction materials, as well as professional and related cost;

- payment of labour costs and staff salaries of RM11.59 million including salaries and allowances, statutory contributions for employees (such as contribution to the Employees Provident Fund (EPF) and Pertubuhan Keselamatan Sosial (PERKESO)), directors' remuneration and bonus; and

- tax payment of RM3.14 million.

Net cash flows from investing activities

Our Group's net cash flows from investing activities amounted to RM4.52 million. This was mainly attributed to the proceeds from disposal of investment properties which was acquired in 2016 amounting to RM5.20 million, comprising mainly the disposal of 5 units of condominium units, as well as the interest received of RM0.21 million from our deposits with financial institutions.

This was partially offset by RM0.73 million utilised for the purchase of property, plant and equipment, mainly for the purchase of motor vehicles, site equipment and furniture and fittings for our head office. Haily Construction had also acquired additional shares in Haily Machinery from Yoong Woei Yeh at a total purchase value of RM0.19 million. This had resulted in the increase of our equity interest in Haily Machinery from 90% to 100%.

Net cash flows used in financing activities

Our Group's net cash flows used in financing activities amounted to RM8.15 million. This was mainly attributed to the dividend paid of RM6.00 million and the repayment of banking facilities of RM2.89 million. This was partially offset by the cash received from the repayment of RM0.83 million from a related party of our Group (i.e., Haily Holdings).

<u>FYE 2020</u>

Net cash flows from operating activities

Our Group recorded net cash flows from operating activities of RM8.66 million where cash receipts were mainly from customers, offset by cash paid to suppliers and employees, and tax payments.

Cash receipts from customers amounted to RM137.73 million. Some of the major cash receipts were from the following customers:

- RM20.44 million for the construction of 236 DSTH Meridin East – Parcel 1H Project;
- RM18.14 million for the construction of 164 DSTH Meridin East – Parcel 1F2 Project;
- RM15.46 million for the construction of 128 DSTH Taman Impian Emas Project;
- RM11.90 million for the construction of 93 DSTH St Marco Park (Phase 1) Project;
- RM15.16 million for the construction of 264 DSTH Bandar Jaya Putra Project;
- RM7.13 million for the construction of 30 TSSD Taman Nusa Sentral Project; and
- RM6.97 million for the construction of Indahpura Business Central (Phase 2) Project.

The remaining receipts of approximately RM42.53 million were contributed by projects of which individually contribute less than 5% of the total receipts during the FYE 2020.

Our Group had also received income tax refunds of RM1.04 million during the FYE 2020 arising from overpayment for year of assessment 2018.

Our Group's cash payments comprised mainly of the following:

- a total of cash payment of RM113.31 million for suppliers and subcontractors for our building construction projects including subcontracted building works, M&E works and other subcontracted services, and purchase of building and construction materials, as well as professional and related cost;
- payment of labour costs and staff salaries of RM12.00 million including salaries and allowances, statutory contributions for employees (such as contribution to the Employees Provident Fund (EPF) and Pertubuhan Keselamatan Sosial (PERKESO)), directors' remuneration and bonus; and
- tax payment of RM3.19 million.

Net cash flows used in investing activities

Our Group's net cash flows used in investing activities amounted to RM2.83 million. This was mainly due to the purchase of other investments of RM1.82 million, namely key man insurance in conjunction with banking facilities obtained. In addition, RM0.85 million was utilised for the purchase of property, plant and equipment, mainly for the purchase of motor vehicles. Our Group's pledged deposits had also increased by RM0.32 million in line with the additional financing facilities obtained.

Net cash flows used in financing activities

Our Group's net cash flows used in financing activities amounted to RM3.87 million. This was mainly attributed to the dividend paid of RM2.50 million and the repayment of banking facilities of RM2.25 million. This was partially offset by the cash received from the drawdown of our revolving credit facility of RM1.00 million.

(iii) Borrowings

As at 31 December 2020, our Group's total outstanding borrowings was RM7.57 million, all of which were interest-bearing and denominated in RM. Our borrowings details are set out below:

	Note	As at 31 December 2020 Payable within 12 months RM'000	Payable after 12 months RM'000	Total RM'000
Lease liabilities	(1)	848	1,102	1,950
Revolving credit	(2)	1,000	-	1,000
Bank overdraft	(2)	4,620	-	4,620
Total		**6,468**	**1,102**	**7,570**
Gearing ratio (times)[3]				**0.15**

Notes:

(1) Lease liabilities were measured based on future minimum lease payments together with the present value of net minimum lease payments.

(2) Our revolving credit and bank overdraft were drawn down for working capital purposes, namely to partially fund our building construction projects.

(3) Calculated based on total borrowings divided by total equity.

The details of the types of credit facilities that our Group uses and its unutilised balances as at LPD are as follows:

Types of credit facilities	Tenure	Effective interest rates per year	Credit limit RM'000	Balance unutilised as at LPD RM'000
Lease liabilities	24-72 months	3.10% to 7.10%	N/A[1]	-[1]
General and blanket contract financing lines[2]	On demand	1.00% to 6.07%	12,000	3,645
Revolving credit	On demand	4.69%	1,000	-
Trade financing, revolving contract financing line and cashline financing[3]	On demand	1.00% to 6.64%	46,000	43,990
Total				**47,635**

Notes:

N/A Not applicable

(1) Comprises hire purchases rented for the purpose of our day-to-day operations. Credit limit is not applicable as no additional drawdown is allowed. The balance unutilised represents the outstanding sum payable on lease liabilities.

(2) Comprises of a general line and a blanket contract financing line granted by United Overseas Bank (Malaysia) Berhad comprising of overdraft against progressive claims, letters of credit, performance guarantees, financial guarantees, trust receipts, bankers' acceptances and invoice financings which all share a combined credit limit of up to RM2.00 million for the general line and RM10.00 million for the blanket contract financing line.

(3) *Comprises of a trade financing line, revolving contract financing line and cashline financing granted by Hong Leong Islamic Bank Berhad comprising of letters of credit, trust receipts, accepted bills, invoice financing, bank guarantees and cashline/progressive claims which all share a combined credit limit of up to RM5.00 million for the trade financing line, RM40.00 million for the revolving contract financing line and RM1.00 million for the cashline financing.*

The above facilities are all secured by all monies facilities agreement, legal charges, joint and several guarantees of our Directors, and/or the directors of Haily Construction, fixed deposits pledged for banking facilities, deeds of assignment over the facilities drawn down, construction contract proceeds and key man insurance.

In view that our Directors have extended personal guarantees for our Group's banking facilities above, as at the LPD, our Directors have obtained consents from the financial institutions for discharge of the personal guarantees provided, subject mainly to our successful Listing and replacement of the personal guarantees with corporate guarantees by Haily. Our Group expects the discharge of the personal guarantees to be completed within 6 months upon our successful Listing.

As at LPD, all of our Group's borrowings are interest bearing borrowings. Our Group has not defaulted on any payment of either principal sums and/or interest in relation to the borrowings for the Financial Years Under Review and up to LPD.

As at LPD, our Group is not in breach of any terms and conditions or covenants associated with the credit arrangements or bank loans, which can materially affect the financial position and results or business operations or investment holders of their securities.

As at LPD, save as disclosed above, our Group did not use any other financial instruments.

(iv) Treasury policies and objectives

Our Group has been funding our operations through shareholder's equity, cash generated from our operations, and external sources of funds. The external sources of funds consist of credit terms granted by our suppliers as well as borrowings from financial institutions. The normal credit term granted by our suppliers ranges from 30 days to 90 days.

As at LPD, our Group's borrowings from financial institution consist of the following:

- a general facility line which comprises of letter of credit, performance guarantee, financial guarantee, trust receipt, bankers' acceptance and invoice financings;

- a blanket contract financing line which comprises of overdraft against progressive claims, performance guarantee, financial guarantee, letter of credit, trust receipt, bankers' acceptance and invoice financings; and

- revolving credit, cashline financing, trade financing and revolving contract financing used as working capital for our business operations.

As at LPD, lease liabilities recognised due to the adoption of new accounting standards pursuant to MFRS 16 was RM1.50 million.

As at LPD, our Group has banking facilities which amounted to approximately RM59.00 million, which approximately RM47.63 million have yet to be fully utilised.

The interest rates of our borrowings as at the LPD are based on a combination of fixed rates and floating rates.

(v) Financial instruments for hedging purposes

For FYE 2017, FYE 2018, FYE 2019 and FYE 2020 as at LPD, our Group does not have any financial instrument for hedging purpose.

(vi) Financial guarantee contracts

As at LPD, the details of our Group's financial guarantees are as follows:

	RM'000
Bank guarantees	3,633

As at LPD, the bank guarantees of RM3.63 million were for performance bonds and tender bonds of various construction projects, which mainly comprised the following:

No.	Project	Performance bond RM'000	Tender bond RM'000
1.	122 units of double-storey terrace houses in Bandar Putra, Senai, Johor	1,014	-
2.	128 DSTH Taman Impian Emas Project	1,300	-
3.	AME Dormitory Project	1,168	-
4.	2 units of double-storey terrace houses as showhouses for Meridin East – Parcel 1B, located at Mukim Plentong	-	4
5.	2 units of double-storey terrace houses as showhouses for Meridin East – Parcel 1C, located at Mukim Plentong	-	4
6.	283 units of double-storey terrace houses for Meridin East – Parcel 1C located at Mukim Plentong	-	20
7.	71 units of double-storey terrace houses and an optional package of 146 units of double-storey terrace houses for a residential development project located at Mukim Pulai, Johor Bahru	-	10
8.	A private recreational facility with other related facilities located at Mukim Pulai, Johor Bahru	-	10
9.	10 units of single-storey detached commercial buildings and related facilities for a commercial development project located at Mukim Tebrau, Johor Bahru	-	8
10.	2 units of double-storey terrace houses as showhouses for Meridin East – Parcel 2H, located at Mukim Plentong	-	4
11.	A 20-storey apartment block and related facilities for a residential development project located at Mukim Plentong, Johor Bahru	-	20

No.	Project	Performance bond RM'000	Tender bond RM'000
12.	A 3-storey school building and related facilities located at Mukim Plentong, Johor Bahru	-	5
13.	66 units of double-storey terrace houses and related facilities for a residential development project located at Mukim Kluang, Kluang	-	20
14.	156 units of double-storey townhouses under the Perumahan Komuniti Johor (PKJ) scheme and 12 units of double-storey terrace houses under the Rumah Mampu Milik Johor (RMMJ) scheme located at Mukim Sedenak, Kulai	-	6
15.	155 units of double-storey terrace houses for Meridin East – Parcel 2H1 located at Mukim Plentong	-	20
16.	159 units of single-storey terrace houses at Zone 10B1, Taman Impian Emas located at Mukim Tebrau, Johor Bahru	-	20
	Total	**3,482**	**151**

(vii) Contingent liabilities

As at LPD, we do not have any contingent liabilities which will or may substantially affect the financial results or position upon becoming enforceable.

(viii) Material litigation, claims or arbitration

As at LPD and saved as disclosed in Section 15.6 of this Prospectus, neither our Company nor our subsidiaries are involved in any legal action, proceeding, prosecution or arbitration, either as plaintiff or defendant, which may have a material adverse effect on the business or our financial position, and our Directors confirm that there are no legal proceeding, pending or threatened, or of any fact to give rise to any legal proceeding which may have a material adverse effect on our business or financial position.

(ix) Capital expenditure and divestitures

Capital expenditure

Our Group's capital expenditure for the Financials Years Under Review and as at LPD, are as follows:

	Audited				Unaudited
	FYE 2017 RM'000	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000	As at LPD RM'000
Motor vehicles	742	543	172	303	-
Plant and machinery	-	-	96	63	-
Furniture and fittings	-	186	78	24	131
Right-of-use assets	-	-	1,107	1,158	-
Investment properties[(1)]	231	263	-	-	-
Others[(2)]	54	220	112	159	6
Total	**1,027**	**1,212**	**1,565**	**1,707**	**137**

Notes:
(1) Arising from the renovation of investment properties.
(2) Others comprise office equipment, site equipment and computers.

For the FYE 2017, our Group's capital expenditure of RM1.03 million was mainly contributed by the acquisition of motor vehicles amounting to RM0.74 million. These motor vehicles were purchased for the use of management and site personnel. In addition, RM0.23 million was utilised for the renovation of our Group's investment properties. The remaining RM0.06 million was utilised for the purchase of office equipment and computers used in our head office.

For the FYE 2018, our Group's capital expenditure of RM1.21 million mainly consists of the purchase of motor vehicles amounting to RM0.54 million which were purchased for the use of site personnel. Of the remaining RM0.67 million capital expenditure, RM0.26 million was utilised for the renovation of investment properties, RM0.22 million was utilised for the purchase of office equipment and computers while RM0.19 million was utilised to purchase furniture and fittings, all used in our head office.

For the FYE 2019, our Group's capital expenditure amounted to RM1.57 million of which the majority was contributed by new right-of-use assets amounting to RM1.11 million. This said right-of-use assets were mainly our Group's office premises, office equipment and motor vehicles and recognised in line with the new accounting standards for leases, namely the Malaysian Financial Reporting Standard 16 (MFRS 16). During the FYE 2019, our Group's capital expenditure had also consisted of RM0.17 million attributable to the purchase of motor vehicles mainly for the use of site personnel and RM0.10 million for the purchase of plant and machinery used at our project sites and store. The remaining capital expenditure of RM0.19 million was due to the purchase of furniture and fittings of RM0.08 million and office equipment and computers of RM0.11 million, all used in our head office.

For the FYE 2020, our Group's capital expenditure amounted to RM1.71 million which mainly comprises of right-of-use assets amounting to RM1.16 million. The said right-of-use assets were mainly our office premises, office equipment and motor vehicles. In addition, our Group's capital expenditure for the FYE 2020 also comprised of RM0.30 million utilised for the purchase of motor vehicles used for management and site personnel and RM0.06 million due to the purchase of plant and machinery used at our project site and store. The remaining capital expenditure of RM0.18 million was due to the purchase of furniture and fittings of RM0.02 million and office equipment and computers of RM0.16 million, used at our head office and project sites.

For the period from 1 January 2021 until the LPD, our Group's capital expenditure amounted to RM0.14 million of which the majority was contributed by purchase of new furniture and fittings at our headquarters of RM0.13 million.

Capital divestitures

Save for the disposal of investment properties, namely 5 condominium units (which were acquired in 2016) to Haily Holdings in the FYE 2019, we did not incur any material divestitures for the past 4 financial years and period under review up to LPD. Please refer to Section 10.1 of this Prospectus for further information of this disposal.

(x) Material capital commitment

As at LPD, our Board confirms that there are no material capital commitments incurred or known to be incurred by our Group.

(xi) Key financial ratios

The following table sets forth the key financial ratios based on our Group's combined financial statements for the Financial Years Under Review:

	Audited			
	FYE 2017	FYE 2018	FYE 2019	FYE 2020
Trade receivables turnover period (days)(1)	107	81	102	106
Trade payables turnover period (days)(2)	97	76	104	123
Current ratio (times)(3)	1.53	1.57	1.60	1.57
Gearing ratio (times)(4)	0.08	0.07	0.04	0.15

Notes:

(1) Based on average of the opening and closing trade receivables of the respective financial years excluding retention sums over total revenue of the respective financial years and multiply by 365 days.
Our trade receivables turnover period is computed after excluding the retention sums. Due to the nature of the construction industry, our customers are entitled to retain 10.0% of each progress billing as retention sum up to a maximum of 5.0% of the contract sum awarded. Our customers will retain the entire retention sum throughout the contract period until the issuance of the Certificate of Practical Completion (CPC) by the architect. Then, half (i.e., 2.5%) of the total retention sum will be released to us, and the remaining half (i.e., balance 2.5%) will be released to us upon expiry of defects liability period (DLP) and issuance of the Certificate of Making Good Defects (CMGD). As such, the exclusion of the retention sum in the computation of trade receivables represents a more appropriate measure of the number of days that our Group requires for the collection of debts that are due to us.

(2) Based on average of the opening and closing trade payables of the respective financial years excluding retention sums over cost of sales of the respective financial years, and multiply by 365 days.

(3) Based on current assets over current liabilities, as at 31 December 2017, 2018, 2019 and 2020 respectively.

(4) Based on total borrowings over total equity, as at 31 December 2017, 2018, 2019 and 2020 respectively.

(a) <u>Trade receivables</u>

The table below sets forth a summary of our Group's trade receivables for the Financial Years Under Review:

	Audited			
	FYE 2017 RM'000	FYE 2018 RM'000	FYE 2019 RM'000	FYE 2020 RM'000
Trade receivables	56,639	60,415	71,712	72,689
Less: Retention sums	(15,706)	(24,441)	(19,609)	(28,440)
Net trade receivables	40,933	35,974	52,103	44,249
Average net trade receivables(1)	35,670	38,453	44,038	48,176
Revenue	121,832	173,787	157,918	166,132
Trade receivable turnover period (days)(2)	107	81	102	106

Notes:

(1) The average net trade receivables is calculated by dividing the summation of the net trade receivables at the beginning of the financial year and the net trade receivables at the end of the financial year by two.

(2) Based on the average net trade receivables of the respective financial years excluding retention sums over total revenue of the respective financial years and multiply by 365 days.

All our Group's trade receivables are classified as current assets. The normal credit term granted by our Group range from 30 to 90 days from the date of invoices to our customers. Other credit terms are assessed and approved on a case-by-case basis.

Our Group has a credit policy in place and the exposure to credit risk is managed through credit limit and credit monitoring procedures. In this regard, we generally consider the customer's creditworthiness, quantum of amount owing and payment history with us prior to mutually agreeing the credit period for such customer before the acceptance of the letter of award.

In addition, our management assesses our trade receivables individually as to their aging condition and collectability. Among the factors considered in determining whether to provide for impairment losses include, whether there is continuing or on-going construction works, subsequent collections, any past provisions and/ or impairments made and/ or letter(s) of demand issued as well as the current industry and economic conditions. Our management will also take necessary actions which include entering into negotiations/ settlement arrangements with the relevant parties to recover the amounts outstanding.

For the Financial Years Under Review, our trade receivables relating to customers include property developers, main contractors and property owners.

FYE 2018 compared to FYE 2017

Notwithstanding the increase in our average net trade receivables for the FYE 2018 by RM2.78 million or 7.80%, from RM35.67 million for the FYE 2017 to RM38.45 million for the FYE 2018, our trade receivables turnover period for the FYE 2018 had decreased to 81 days as compared to 107 days for the FYE 2017. This was mainly due to the increase in revenue for the FYE 2018 from RM121.83 million for the FYE 2017 to RM173.79 million for the FYE 2018, representing an increase of RM51.96 million or 42.64%. The decrease in our trade receivables turnover period was also due to the decrease in net trade receivables for the FYE 2018 from RM40.93 million as at 31 December 2017 to RM35.97 million as at 31 December 2018, representing a decrease of 12.12%. This was mainly because of our net trade receivables as at 31 December 2017 of RM40.93 million, RM37.33 million was from invoices issued to our customers in December 2017.

FYE 2019 compared to FYE 2018

Our trade receivable turnover period for the FYE 2019 increased to 102 days from 81 days for the FYE 2018. This was mainly attributable to the increase in our average net trade receivables which had increased from RM38.45 million for the FYE 2018 to RM44.04 million for the FYE 2019, representing an increase of RM5.59 million or 14.52%. In addition, the increase in our trade receivable turnover period for the FYE 2019 was due to the decrease in revenue for the financial year under review from RM173.79 million in the prior financial year to RM157.92 million for FYE 2019, representing a decrease of RM15.87 million or 9.13%. Notwithstanding the above, it is also noted that our Group's net trade receivables as at 31 December 2019 had increased by RM16.13 million or 44.84% from RM35.97 million as at 31 December 2018 to RM52.10 million as at 31 December 2019. This was mainly due to invoices issued to our customers in December 2019, which amounted to RM27.03 million of RM52.10 million.

FYE 2020 compared to FYE 2019

Our Group's trade receivables turnover period for the FYE 2020 had increased to 106 days from 102 days for the FYE 2019. The increase was mainly due to the increase in our Group's average net trade receivables from RM44.04 million for the FYE 2019 to RM48.18 million for the FYE 2020, representing an increase of RM4.14 million or 9.40%. This is as compared to the increase in revenue by RM8.21 million or 5.20% as illustrated in Section 12.3.1 of this Prospectus. Our Group's net trade receivables as at 31 December 2020 of RM44.25 million, RM13.10 million was due from invoices issued to customers in December 2020.

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12. FINANCIAL INFORMATION (CONT'D)

Our Group's trade receivable ageing analysis as at 31 December 2020 is as follows:

	Within credit period	Exceed credit period (past due days)				Total
		1 - 30	31 - 60	61 - 90	Over 90	
Net trade receivables as at 31 December 2020[(1)] (RM'000)	18,651	6,150	2,834	1,836	14,778	44,249
Proportion of total trade receivables (%)	42.15	13.90	6.40	4.15	33.40	100.00
Subsequent collections as at LPD (RM'000)	17,707	6,078	2,428	1,633	8,503	36,349
Net trade receivables after subsequent collections (RM'000)	944	72	406	203	6,275	7,900
Proportion of trade receivables after subsequent collections (%)	11.95	0.91	5.14	2.57	79.43	100.00

Note:

(1) Based on trade receivables excluding retention sums.

As at LPD, RM36.35 million or 82.15% of our total net trade receivables outstanding have been collected while RM7.90 million or 17.85% of the total net trade receivables remain outstanding as at LPD. Of the total net trade receivables outstanding as at the LPD of RM7.90 million, RM6.96 million or 88.05% exceeds the credit period granted to customers. As at the LPD, the uncollected amounts exceeding the credit period are attributable to 2 customers, 1 of which we have a long-standing relationship and has awarded us with a total of 10 projects during the Financial Years Under Review and up till the LPD of which 4 projects are currently on-going as at the LPD. The total net trade receivables outstanding from this customer as at the LPD amounts to RM5.95 million or 75.38% of the total net trade receivables outstanding. While we have experienced delays in payments from this customer for past invoices, we have managed to subsequently collect the outstanding amounts thus provision for doubtful debts for the said outstanding amount as at the LPD of RM5.95 million is not required. Thus, the Board is of the view that the RM5.95 million outstanding as at the LPD is recoverable.

Based on the total net trade receivables outstanding as at the LPD, the amounts owed by the other customer, namely Pembinaan Intra Vista Sdn Bhd ("PIV") amounted to RM1.95 million[(1)] or 24.62% of the total net trade receivables outstanding. After considering our Group's credit exposure, on 21 September 2020, Casa Bayu Idaman Sdn Bhd (Developer), PIV as the main contractor and Haily Construction as a sub-contractor entered into an agreement (which was subsequently supplemented by a supplementary agreement dated 15 January 2021) (collectively referred to as "St Marco Settlement Agreement") for the mutual termination of 174 DSTH St Marco Park (Phase 2) Project and settlement of all outstanding sums due from this customer. Please refer to Section 15.5 of this Prospectus for further details. As security for the full repayment of approximately RM12.29 million, being the total amount outstanding pursuant to the St Marco Settlement Agreement, by PIV to Haily Construction and the performance and observance of the terms and conditions of the St Marco Settlement Agreement, a director of Casa Bayu Idaman Sdn Bhd has executed a letter of guarantee and indemnity in favour of Haily Construction to undertake the payment of the amount guaranteed and the due performance of the guarantee. As at the LPD, RM3.25 million[(2)] remains outstanding. In addition, subsequent to the St Marco Settlement Agreement, our Group made further billings to PIV of which RM0.36 million is outstanding as at the LPD. As the receivables are not covered by collateral or credit insurance, we are subject to credit risks which could adversely affect our financial condition and performance. Please refer to Section 9.1.14 of this Prospectus for further details.

Notes:

(1) Based on the net trade receivables as at 31 December 2020 and subsequent collections as at the LPD, the amounts owed by PIV of RM1.95 million comprise of amounts pursuant to the St Marco Settlement Agreement and subsequent billings to PIV prior to 31 December 2020:

	RM'000
Being amounts outstanding for 174 DSTH St Marco Park (Phase 2) Project pursuant to the St Marco Settlement Agreement	*1,582*
Being subsequent billings to PIV for 93 DSTH St Marco Park (Phase 1) Project after the St Marco Settlement Agreement upon finalisation of accounts	*363*[(1)]
Total	***1,945***

Note:

(1) These amounts are not part of the St Marco Settlement Agreement and are intended to be settled in accordance to the credit terms.

(2) Pursuant to the St Marco Settlement Agreement, RM3.25 million remains outstanding as at the LPD, the details of which are as follows:

	RM'000
Being amounts outstanding for 174 DSTH St Marco Park (Phase 2) Project pursuant to the St Marco Settlement Agreement	*1,582*
Retention sum for 93 DSTH St Marco Park (Phase 1) Project due from PIV subsequent to 31 December 2020	*521*
Retention sum for 174 DSTH St Marco Park (Phase 2) Project due from PIV subsequent to 31 December 2020	*1,151*
Total	***3,254***

(b) <u>Trade payables</u>

The table below sets forth a summary of our Group's trade payables for the Financial Years Under Review:

	Audited			
	FYE 2017 RM'000	**FYE 2018 RM'000**	**FYE 2019 RM'000**	**FYE 2020 RM'000**
Trade payables	37,774	49,055	53,081	67,865
Less: Retention sums	(10,926)	(12,709)	(12,300)	(15,567)
Net trade payables	26,848	36,346	40,781	52,298
Average net trade payables[(1)]	26,158	31,597	38,563	46,539
Cost of sales	98,313	151,619	134,981	138,648
Trade payable turnover period (days)[(2)]	97	76	104	123

Notes:

(1) The average net trade payables is calculated by dividing the summation of the net trade payables at the beginning of the financial year and the net trade payables at the end of the financial year by two.

(2) Based on the average net trade payables of the respective financial years excluding retention sums over cost of sales of the respective financial years and multiply by 365 days.

All our Group's trade payables are classified as current liabilities. The normal credit terms granted by our suppliers ranges from 30 to 90 days.

FYE 2018 compared to FYE 2017

The trade payable turnover period for the FYE 2018 was 76 days as compared to 97 days for the FYE 2017. This was due to the increase in cost of sales of RM53.31 million or 54.22% from RM98.31 million in the FYE 2017 to RM151.62 million in the FYE 2018 as compared to the increase in net trade payables of RM9.50 million or 35.38% from RM26.85 million as at 31 December 2017 to RM36.35 million as at 31 December 2018. As our collections for the FYE 2018 improved as noted via the decrease in our trade receivables turnover period, the decrease in our trade payable turnover period for the FYE 2018 was because of the expediting of payments to our sub-contractors and suppliers while still utilising the credit period granted to us.

FYE 2019 compared to FYE 2018

Our Group's trade payables turnover period increased from 76 days for the FYE 2018 to 104 days for the FYE 2019. This was due to the increase in net trade payables by RM4.43 million or 12.20% from RM36.35 million as at 31 December 2018 to RM40.78 million as at 31 December 2019. In addition, our cost of sales decreased by RM16.64 million or 10.97%, further contributing to the increase in trade payables turnover period in the FYE 2019. Our trade payables turnover period of 104 days for the FYE 2019 was mainly in line with our increase in trade receivables turnover period due to the slower collections from trade receivables which resulted in our slower payment to trade payables.

FYE 2020 compared to FYE 2019

Our Group's trade payables turnover period increased from 104 days for the FYE 2019 to 123 days for the FYE 2020. This was due to the increase in average net trade payables by RM7.98 million or 20.68% from RM38.56 million as at 31 December 2019 to RM46.54 million as at 31 December 2020. In addition, the cost of sales for the FYE 2020 had increased at a reduced rate by RM3.67 million or 2.72%, further contributing to the increase in trade payables turnover period in the FYE 2020. The trade payables turnover period of 123 days for the FYE 2020 was mainly due to the Group's cash flow conservation efforts in view of the COVID-19 pandemic, such as making full use of the credit terms given by suppliers and sub-contractors, and the increase in trade receivables turnover period due to the slower collections from trade receivables which resulted in the slower payments to trade payables.

Our Group's trade payable ageing analysis as at 31 December 2020 is as follows:

	Within credit period	Exceed credit period (past due days)				Total
		1 - 30	31 - 60	61 - 90	Over 90	
Net trade payables as at 31 December 2020[(1)] (RM'000)	37,983	8,865	2,505	1,654	1,291	52,298
Proportion of total trade payables (%)	72.63	16.95	4.79	3.16	2.47	100.00
Subsequent payment as at LPD (RM'000)	31,190	8,278	1,911	1,476	878	43,733
Net trade payables after subsequent payment as at LPD (RM'000)	6,793	587	594	178	413	8,565
Proportion of trade payables after subsequent payment as at LPD (%)	79.31	6.85	6.94	2.08	4.82	100.00

Note:

(1) Based on trade payables excluding retention sum.

As at the LPD, RM43.73 million or 83.62% of our total net trade payables as at 31 December 2020 have been paid while RM8.57 million or 16.38% remain outstanding. Of the total net trade payables outstanding, RM6.79 million or 79.31% falls within the credit period granted to us by our suppliers and sub-contractors. In line with our Group's cash conservation efforts as mentioned above, we are actively managing our cash balances by leveraging on the credit periods granted or any extensions accorded to us by our suppliers and sub-contractors. As at the LPD, there were no disputes in respect of our total outstanding net trade payables and no legal action has been initiated by our suppliers and sub-contractors to demand for payment from us.

(c) Inventory turnover

There was no inventory recorded for the Financial Years Under Review. In this respect, the inventory turnover computation is not applicable.

(d) Current ratio

The table below sets forth a summary of our Group's current ratio for the Financial Years Under Review:

	As at 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Current assets	95,126	98,736	110,308	130,743
Current liabilities	62,026	62,833	68,744	83,532
Current ratio (times) (1)	1.53	1.57	1.60	1.57

Note:
(1) Current ratio is calculated based on current assets over current liabilities.

FYE 2018 compared to FYE 2017

Our Group's current ratio improved from 1.53 times as at 31 December 2017 to 1.57 times as at 31 December 2018. This was mainly attributable to the increase in current assets from RM95.13 million as at 31 December 2017 to RM98.74 million as at 31 December 2018, representing an increase of RM3.61 million or 3.79%, without a corresponding increase in current liabilities. This was mainly attributable to the increase of trade and other receivables which increased from RM59.69 million as at 31 December 2017 to RM61.97 million as at 31 December 2018, representing an increase of RM2.28 million or 3.82%.

FYE 2019 compared to FYE 2018

Our Group's current ratio further increased to 1.60 times as at 31 December 2019 from 1.57 times as at 31 December 2018. This increase was attributable to the increase in current assets of RM11.57 million or 11.72%, notwithstanding the increase in current liabilities of RM5.91 million or 9.41%.

The increase in current assets was mainly attributable to the increase in trade and other receivables as well as cash and short-term deposits, which increased by RM10.50 million or 16.94% and RM5.23 million or 34.84%, respectively. The increase in cash and short-term deposits was mainly due to the proceeds from the disposal of investment properties of RM5.20 million and income tax refunds of RM3.26 million received in FYE 2019.

The improvement in our current ratio as at 31 December 2019 was slightly affected by the decrease in current tax assets of RM3.12 million and increase in trade and other payables of RM5.41 million.

FYE 2020 compared to FYE 2019

Our Group's current ratio decreased from 1.60 times as at 31 December 2019 back to 1.57 times as at 31 December 2020. This was mainly attributable to the increase in current liabilities from RM68.74 million as at 31 December 2019 to RM83.53 million as at 31 December 2020, representing an increase of RM14.79 million or 21.51%. The said increase was mainly attributable to the increase of trade and other payables as well as loans and borrowings which collectively increased from RM58.14 million as at 31 December 2019 to RM79.51 million as at 31 December 2020, representing an increase of RM21.37 million or 36.76%.

However, contract liabilities decreased from RM10.58 million as at 31 December 2019 to RM2.96 million as at 31 December 2020, representing a decrease of RM7.62 million or 72.03%, mainly due to the timing difference arising from actual cost incurred and milestone billings made to customers.

This was partially offset by the increase in current assets from RM110.31 million as at 31 December 2019 to RM130.74 million as at 31 December 2020, representing an increase of RM20.43 million or 18.52%. This was mainly attributable to the increase in contract assets which increased from RM16.72 million as at 31 December 2019 to RM29.67 million as at 31 December 2020, representing an increase of RM12.95 million or 77.45%.

(e) <u>Gearing ratio</u>

The table below sets forth a summary of our Group's gearing ratio for the Financial Years Under Review:

	As at 31 December			
	2017 RM'000	**2018 RM'000**	**2019 RM'000**	**2020 RM'000**
Total loans and borrowings[(1)]	3,058	2,759	1,915	7,570
Total equity	38,105	41,342	44,030	51,974
Gearing ratio (times)[(2)]	0.08	0.07	0.04	0.15

Notes:
(1) Total loans and borrowings include term loan, finance lease and lease liabilities.
(2) Gearing ratio is calculated based on total loans and borrowings over total equity.

Our Group had managed to maintain low gearing ratio levels, namely 0.08 times as at 31 December 2017, 0.07 times as at 31 December 2018 and 0.04 times as at 31 December 2019. This was due to the decreasing trend in our Group's total loans and borrowings and increasing trend for our Group's total equity. Our Group had maintained low levels of gearing and financed our operations mainly through internally generated funds to reduce finance costs during these said financial years. However, as at 31 December 2020, our Group's gearing ratio had increased from 0.04 times as at 31 December 2019 to 0.15 times as at 31 December 2020. This was due to the increase in the Group's borrowings from RM1.92 million as at 31 December 2019 to RM7.57 million as at 31 December 2020, representing an increase of RM5.65 million or 294.27%. This was mainly due to the drawdown of bank overdraft of RM4.62 million and revolving credit of RM1.00 million, both utilised for working capital purposes to partially fund our building construction projects.

12.6 ACCOUNTING POLICIES AND AUDIT QUALIFICATION

There was no accounting policy adopted which is peculiar to our Group because of the nature of our business or the industry we operate in during the Financial Years Under Review. The Accountants' Report did not contain any audit qualification for the Financial Years Under Review.

12.7 TREND ANALYSIS

As at LPD, save as disclosed in this Prospectus and to the best of our Board's knowledge and belief, our operations have not been and are not expected to be affected by any of the following:

(i) known trends, demands, commitments, unusual or infrequent events or transactions, uncertainties or any significant economic changes that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our financial performance, position, operations liquidity and capital resources, save as disclosed in Sections 7.3 to 7.5.2, 7.6 to 7.24, 9 and 12.3 to 12.5 of this Prospectus;

(ii) material commitment for capital expenditure, as set out in Sections 12.5 (ix) and (x) of this Prospectus;

(iii) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of the future financial performance and position, save as disclosed in Section 9.3.8 of this Prospectus.

(iv) known events or uncertainties that have had or that we reasonably expect to have, a material unfavourable impact on our financial performance, position, operations liquidity and capital resources as set out in Sections 7.17, 9.1.4, 9.1.5 and 9.1.8 of this Prospectus in relation to interruptions to business and operations pursuant to the COVID-19 pandemic and the conditions of the MCO, CMCO, RMCO and reimposition of the various MCO measures respectively

However, our Board foresees certain risk factors in relation to our business operations and industry as set out in Sections 9.1 and 9.2 of this Prospectus that may affect our future financial condition and results of operations.

Our Board is still optimistic about the future prospects of our Group after taking into account the outlook albeit overall slower pace of the construction industry in Malaysia as set out in Section 8 of this Prospectus, our competitive advantages and key strength as set out in Section 7.4 of this Prospectus and our business strategies and plans as set out in Section 7.23 of this Prospectus.

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12.8 ORDER BOOK

Our business is principally in the construction of residential and non-residential buildings, where we usually secured contracts for building construction projects. As at 10 June 2021, we have a total of 20 on-going construction projects with a total secured contract value and unbilled contract value of RM460.04 million and RM249.58 million respectively, comprising the following:

(i) 18 construction projects for residential and non-residential development projects with a total secured contract value of RM459.40 million and unbilled contract value of RM249.46 million. These projects are expected to be completed progressively between 2021 and 2023; and

(ii) 2 civil engineering construction project, namely, the Taman Nusa Sentral – Guardhouse and perimeter fencing Project and remedial works for 2 units of TNB double chamber sub-stations, with a total secured contract value of RM0.64 million and unbilled contract value of RM0.12 million. Both these projects are expected to be completed by 2022 and within fourth quarter of 2021, respectively.

The details of our order book are as follows:

Project Name	Customer	Approximate Percentage of Completion as at 10 June 2021 %	Expected completion date	Total Contract Value RM million	Contract value recognised up to 10 June 2021 RM million	Order Book of Unbilled Value as at 10 June 2021[(1)] RM million	Contract value expected to be recognised: 10 June 2021 to 31 December 2021 RM million	FYE 2022 RM million	FYE 2023 RM million
(A) On-going residential and non-residential projects as at 10 June 2021									
<u>Contract value of RM1.0 million and above</u>									
264 DSTH Bandar Jaya Putra Project	Austin Senibong Development Sdn Bhd	92%	August 2021	48.67	44.84	3.83	3.83	-	-
185 DSTH Meridin East – Parcel 1I Project	Meridin East Sdn Bhd	92%	July 2021	34.60	25.19	9.41	9.41	-	-

12. FINANCIAL INFORMATION (CONT'D)

Project Name	Customer	Approximate Percentage of Completion as at 10 June 2021 %	Expected completion date	Total Contract Value RM million	Contract value recognised up to 10 June 2021 RM million	Order Book of Unbilled Value as at 10 June 2021[1] RM million	Contract value expected to be recognised: 10 June 2021 to 31 December 2021 RM million	Contract value expected to be recognised: FYE 2022 RM million	Contract value expected to be recognised: FYE 2023 RM million
(A) On-going residential and non-residential projects as at 10 June 2021									
<u>Contract value of RM1.0 million and above (Cont'd)</u>									
164 DSTH Meridin East – Parcel 1F2 Project	Meridin East Sdn Bhd	92%	June 2021	30.80	28.47	2.33	2.33	-	-
128 DSTH Taman Impian Emas Project	Gunung Impian Development Sdn Bhd	92%	July 2021	26.00	23.94	2.06	2.06	-	-
30 TSSD Taman Nusa Sentral Project	Country View Resources Sdn Bhd	86%	February 2022	18.19	15.63	2.56	2.20	0.36	-
Taman Ungku Tun Aminah – Zone 13 Project	Danau Homes Sdn Bhd	92%	September 2021	16.93	15.54	1.39	1.39	-	-
120 SSTH Bandar Putra Project	Nice Frontier Sdn Bhd	89%	July 2021	14.23	12.72	1.51	1.51	-	-
30 SSSD Taman Ungku Tun Aminah – Zone 9 Project	Danau Homes Sdn Bhd	82%	October 2021	7.90	6.45	1.45	1.45	-	-

12. FINANCIAL INFORMATION (CONT'D)

Project Name	Customer	Approximate Percentage of Completion as at 10 June 2021 %	Expected completion date	Total Contract Value RM million	Contract value recognised up to 10 June 2021 RM million	Order Book of Unbilled Value as at 10 June 2021[(1)] RM million	Contract value expected to be recognised		
							10 June 2021 to 31 December 2021 RM million	FYE 2022 RM million	FYE 2023 RM million
(A) On-going residential and non-residential projects as at 10 June 2021									
Contract value of RM1.0 million and above (Cont'd)									
122 DSTH Bandar Putra Project	Nice Frontier Sdn Bhd	18%	2022	20.28	3.62	16.66	10.58	6.08	-
217 DSTH Taman Mutiara Maju Project	Danau Homes Sdn Bhd	-	October 2022	38.08	-	38.08	15.23	22.85	-
206 DSTH Gelang Patah Project	Mandy Corporation Sdn Bhd	-	January 2023	51.46	-	51.46	14.41	34.48	2.57
Bandar Jaya Putra Project	Austin Senibong Development Sdn Bhd	41%	July 2022	62.52	25.49	37.03	20.78	16.25	-
Indahpura Business Central (Phase 3) Project	Tek Land Sdn Bhd	-	Second quarter of 2023	9.41	-	9.41	-	7.34	2.07
147 DSTV Aurora Sentral Project	Country View Resources Sdn Bhd	<1%	End of 2022	45.08	0.11	44.97	14.32	29.75	0.90

12. FINANCIAL INFORMATION (CONT'D)

Project Name	Customer	Approximate Percentage of Completion as at 10 June 2021	Expected completion date	Total Contract Value	Contract value recognised up to 10 June 2021	Order Book of Unbilled Value as at 10 June 2021[(1)]	Contract value expected to be recognised		
							10 June 2021 to 31 December 2021	FYE 2022	FYE 2023
		%		RM million	RM million	RM million	RM million	RM million	RM million
(A) On-going residential and non-residential projects as at 10 June 2021									
Contract value of RM1.0 million and above (Cont'd)									
AME Dormitory Project	AME Development Sdn Bhd	34%	October 2021	20.90	7.20	13.70	13.70	-	-
Aurora Sentral Clubhouse Project	Country View Resources Sdn Bhd	<1%	End of 2022	6.74	0.02	6.72	2.14	4.45	0.13
SJK (C) Sim Mow Yu Project	SJK (C) Sim Mow Yu	<1%	March 2022	6.65	0.02	6.63	3.97	2.66	-

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12. FINANCIAL INFORMATION (CONT'D)

Project Name	Customer	Approximate Percentage of Completion as at 10 June 2021 %	Expected completion date	Total Contract Value RM million	Contract value recognised up to 10 June 2021 RM million	Order Book of Unbilled Value as 10 June 2021[1] RM million	Contract value expected to be recognised: 10 June 2021 to 31 December 2021 RM million	Contract value expected to be recognised: FYE 2022 RM million	Contract value expected to be recognised: FYE 2023 RM million
(A) On-going residential and non-residential projects as at 10 June 2021									
Contract value of below RM1.0 million									
Bungalow House Masonry work	Law Kit Tat	72%	June 2021	0.96	0.70	0.26	0.26	-	-
Sub-total (A)				**459.40**	**209.94**	**249.46**	**119.57**	**124.22**	**5.67**

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12. FINANCIAL INFORMATION (CONT'D)

Project Name	Customer	Approximate Percentage of Completion as at 10 June 2021	Expected completion date	Total Contract Value	Contract value recognised up to 10 June 2021	Order Book of Unbilled Value as at 10 June 2021(1)	Contract value expected to be recognised		
							10 June 2021 to 31 December 2021	FYE 2022	FYE 2023
		%		RM million	RM million	RM million	RM million	RM million	RM million
(B) On-going civil engineering construction projects as at 10 June 2021									
Taman Nusa Sentral – Guardhouse and perimeter fencing Project	Country View Resources Sdn Bhd	98%	February 2022	0.53	0.52	0.01	-	0.01	-
I-Parc Tanjung Pelepas remedial work Project	Mah Sing Properties Sdn Bhd	-	Fourth quarter of 2021	0.11	-	0.11	0.11	-	-
Sub-total (B)				**0.64**	**0.52**	**0.12**	**0.11**	**0.01**	**-**
Total				**460.04**	**210.46**	**249.58**	**119.68**	**124.23**	**5.67**

Note:

(1) The order book of unbilled value as at 10 June 2021 represents the remaining contract value to be recognised from in FYE 2021 to FYE 2023.

12. FINANCIAL INFORMATION (CONT'D)

Our Group's order book as at 10 June 2021 by project types:

	Secured Contract Value as at 10 June 2021	Order Book of Unbilled Value as at 10 June 2021[(1)]	Contract value recognised up to 10 June 2021	Contract value expected to be recognised		
				10 June 2021 to 31 December 2021	FYE 2022	FYE 2023
	RM million	RM million	RM million	RM million	RM million	RM million
Residential	**308.10**	**131.00**	**177.10**	**64.66**	**63.77**	**2.57**
Single-dwelling buildings						
Terrace house and cluster house	281.05	126.73	154.32	60.75	63.41	2.57
Semi-detached and detached house	27.05	4.27	22.78	3.91	0.36	-
Non-residential	**151.30**	**118.46**	**32.84**	**54.91**	**60.45**	**3.10**
Commercial buildings						
Shop office	71.93	46.44	25.49	20.78	23.59	2.07
Terrace villas	45.08	44.97	0.11	14.32	29.75	0.90
Purpose-built buildings						
Dormitory	20.90	13.70	7.20	13.70	-	-
Clubhouse	6.74	6.72	0.02	2.14	4.45	0.13
Institutional building						
School	6.65	6.63	0.02	3.97	2.66	-
Others	**0.64**	**0.12**	**0.52**	**0.11**	**0.01**	**-**
Civil engineering construction	0.64	0.12	0.52	0.11	0.01	-
TOTAL	**460.04**	**249.58**	**210.46**	**119.68**	**124.23**	**5.67**

Note:
(1) The order book of unbilled value as at 10 June 2021 represents the remaining contract value to be recognised from FYE 2021 to FYE 2023.

Please refer to Section 7.4(v) of this Prospectus for further information on our order book. We do not maintain an order book for our business of rental of machinery and equipment.

12.9 DIVIDEND POLICY

It is our Board's policy to recommend dividends to allow our shareholders to participate in the profits of our Group. However, our ability to pay dividends or make other distributions to our shareholders in the future years is subject to various factors such as having profits and excess funds, which are not required to be retained to fund our business.

Our Board will consider the following factors (which may not be exhaustive) when recommending dividends for approval by our shareholders or when declaring any interim dividends:

(i) the level of cash and level of indebtedness;

(ii) required and expected interest expense, cash flows, profits, return on equity and retained earnings;

(iii) our expected results of operations and future level of operations; and

(iv) our projected levels of capital expenditure and other investment plans.

The payment and amount of any dividends or distributions to our shareholders will be at the discretion of our Board and will depend on factors stated above (which may not be exhaustive). There is no assurance as to whether the dividend distribution will occur as intended, the amount of dividend payment or timing of such payment.

Subject to the Act, our Company, in general meeting, may from time to time approve a dividend or other distribution. However, no dividend or distribution shall be declared in excess of the amount recommended by our Board. Further, under the Act, our Company may not declare or pay dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

(i) our Company is, or would after the payment be unable to pay its liabilities as they become due; or

(ii) the realisable value of the Company's assets would thereby be less than its liabilities.

Dividends declared and distributed by our Group to our shareholder for the FYE 2017, FYE 2018, FYE 2019 and FYE 2020 were RM10.01 million, RM5.25 million, RM6.00 million and RM2.50 million respectively. Please refer to Note 24 of the Accountants' Report set out in Section 13 of this Prospectus for further details. For the FYE 2017, FYE 2018, FYE 2019 and FYE 2020 our Group had distributed dividends to our shareholders of 79.73%, 62.17%, 67.75% and 23.94%, based on the respective year's profit after tax attributable to them. The dividends distributed for the past FYE 2017 to FYE 2020 were distributed based on the funds within our Group in excess of our Group's funding requirements for our business operations. The declaration of such dividends would not affect the execution and implementation of the Group's future plans or strategies moving forward. Further, as at the LPD, there are no dividends which have been declared by the Group but not paid.

Subject to the factors outlined above, our Board has an intention to recommend and distribute dividends of at least 30% of our annual profits attributable to our shareholders upon completion of our Listing. However, it is not a legally binding obligation/ guaranteed commitment to the shareholders.

Kindly refer to Section 9.3 of this Prospectus for risks relating to investments in our Shares.

No inference should or can be made from any of the foregoing statements as to our actual future profitability or our ability to pay dividends in the future.

bakertilly

Baker Tilly Monteiro Heng PLT
201906000600 (LLP0019411-LCA)
Chartered Accountants (AF 0117)
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info@bakertilly.my
www.bakertilly.my

15 June 2021

The Board of Directors
Haily Group Berhad
Suite 5.11 & 5.12, 5th Floor, Menara TJB
No. 9, Jalan Syed Mohd Mufti
80000 Johor Bahru
Johor

Dear Sirs,

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

Opinion

We have audited the accompanying financial statements of the Company, as defined in Note 2 to the financial statements (the "Group"), which comprise of:

(i) The combined statements of financial position as at 31 December 2017, 31 December 2018 and 31 December 2019, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years then ended;

(ii) The consolidated statements of financial position as at 31 December 2020, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the financial year then ended; and

(iii) Notes to the financial statements, including a summary of significant accounting policies, as set out on pages 7 to 98.

In our opinion, the accompanying financial statements contained in the Accountants' Report of the Company give a true and fair view of the financial positions of the Group as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020 and of its financial performance and its cash flows for the financial years then ended in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and Chapter 10, Part II Division I: Equity of the Prospectus Guidelines as issued by the Securities Commission Malaysia.

HAILY GROUP BERHAD
(Incorporated in Malaysia)

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Responsibilities of the Directors for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements contained in the Accountants' Report of the Company, so as to 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 statements of the Group that are free from material misstatement, whether due to fraud or error.

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

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

Reporting Accountants' Responsibilities for the Audit of the Financial Statements

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

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HAILY GROUP BERHAD
(Incorporated in Malaysia)

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

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 statements of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- 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 statements of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Reporting Accountants' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements of the Group, including the disclosures, and whether the financial statements of the Group represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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HAILY GROUP BERHAD
(Incorporated in Malaysia)

Other Matter

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

Baker Tilly Monteiro Heng PLT 201906000600 (LLP0019411-LCA) & AF 0117 Chartered Accountants	Dato' Lock Peng Kuan No. 02819/10/2022 J Chartered Accountant

Kuala Lumpur

Date: 15 June 2021

HAILY GROUP BERHAD
Accountants' Report

STATEMENT BY DIRECTORS

We, **SEE TIN HAI** and **YOONG WOEI YEH**, being two of the directors of HAILY GROUP BERHAD, do hereby state that in the opinion of the directors, the accompanying financial statements are drawn up in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial positions of the Group as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020 and of its financial performance and cash flows for the financial years then ended.

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

....
SEE TIN HAI
Director

....
YOONG WOEI YEH
Director

Johor Bahru

Date: 15 JUN 2021

HAILY GROUP BERHAD
Accountants' Report

STATUTORY DECLARATION

I, **LONG CHEOW SIONG**, being the officer primarily responsible for the financial management of HAILY GROUP BERHAD, do solemnly and sincerely declare that to the best of my knowledge and belief, the accompanying financial statements are correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

....
LONG CHEOW SIONG
(MIA Membership No: 10464)

Subscribed and solemnly declared by the abovenamed at Johor Bahru in the state of Johor on
15 JUN 2021.

Before me,

PESURUHJAYA SUMPAH
J246
LAU LAY SUNG
1.1.2021-31.12.2023
MALAYSIA

....
Commissioner for Oaths
No. 18-01, Jalan Bestari 5/2,
Taman Nusa Bestari,
81300 Johor Bahru, Johor

HAILY GROUP BERHAD
Accountants' Report

STATEMENTS OF FINANCIAL POSITION

	Note	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
		As at 31 December			
ASSETS					
Non-current assets					
Property, plant and equipment	5	2,231	2,219	3,781	4,116
Investment properties	6	5,259	5,378	-	-
Deferred tax asset	7	19	6	-	-
Goodwill	8	118	118	118	118
Other investments	9	-	-	-	1,818
Total non-current assets		**7,627**	**7,721**	**3,899**	**6,052**
Current assets					
Current tax assets		4,004	3,987	872	1
Trade and other receivables	10	59,691	61,971	72,469	73,911
Contract assets	11	17,113	17,768	16,724	29,677
Cash and short-term deposits	12	14,318	15,010	20,243	27,154
Total current assets		**95,126**	**98,736**	**110,308**	**130,743**
TOTAL ASSETS		**102,753**	**106,457**	**114,207**	**136,795**
EQUITY AND LIABILITIES					
Equity attributable to owners of the Group					
Invested equity/share capital	13	1,500	1,500	1,500	41,530
Reorganisation reserve	14	-	-	-	(40,030)
Retained earnings		36,482	39,677	42,530	50,474
		37,982	41,177	44,030	51,974
Non-controlling interest		123	165	-	-
TOTAL EQUITY		**38,105**	**41,342**	**44,030**	**51,974**

HAILY GROUP BERHAD
Accountants' Report

STATEMENTS OF FINANCIAL POSITION (CONTINUED)

		As at 31 December			
		2017	**2018**	**2019**	**2020**
	Note	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Non-current liabilities					
Loans and borrowings	**15**	2,429	2,129	1,250	1,102
Deferred tax liabilities	**7**	193	153	183	187
Total non-current liabilities		**2,622**	**2,282**	**1,433**	**1,289**
Current liabilities					
Loans and borrowings	**15**	629	630	665	6,468
Current tax liabilities		7	5	18	1,054
Trade and other payables	**16**	50,008	52,065	57,479	73,050
Contract liabilities	**11**	11,382	10,133	10,582	2,960
Total current liabilities		**62,026**	**62,833**	**68,744**	**83,532**
TOTAL LIABILITIES		**64,648**	**65,115**	**70,177**	**84,821**
TOTAL EQUITY AND LIABILITIES		**102,753**	**106,457**	**114,207**	**136,795**

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

STATEMENTS OF COMPREHENSIVE INCOME

	Note	FYE 31 December 2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Revenue	17	121,832	173,787	157,918	166,132
Cost of sales		(98,313)	(151,619)	(134,981)	(138,648)
Gross profit		**23,519**	**22,168**	**22,937**	**27,484**
Other income	18	684	609	707	459
Administrative expenses		(7,530)	(10,803)	(11,624)	(13,228)
Operating profit		**16,673**	**11,974**	**12,020**	**14,715**
Finance costs	19	(67)	(33)	(90)	(212)
Profit before tax	20	**16,606**	**11,941**	**11,930**	**14,503**
Income tax expense	22	(4,015)	(3,454)	(3,044)	(4,059)
Profit for the financial year, representing total comprehensive income for the financial year		**12,591**	**8,487**	**8,886**	**10,444**
Profit attributable to:					
Owners of the Group		12,549	8,445	8,856	10,444
Non-controlling interest		42	42	30	-
		12,591	**8,487**	**8,886**	**10,444**
Total comprehensive income attributable to:					
Owners of the Group		12,549	8,445	8,856	10,444
Non-controlling interest		42	42	30	-
		12,591	**8,487**	**8,886**	**10,444**
Earnings per share (RM)					
- Basic and diluted	23	8.37	5.63	5.90	0.07

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

STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to owners of the Group Invested equity RM'000	 Retained earnings RM'000	Sub-total RM'000	Non-controlling interest RM'000	Total equity RM'000
At 1 January 2017		**1,500**	**33,938**	**35,438**	**81**	**35,519**
Total comprehensive income for the financial year						
Profit for the financial year, representing total comprehensive income for the financial year		-	12,549	12,549	42	12,591
Transaction with owners:						
Dividends paid on shares	24	-	(10,005)	(10,005)	-	(10,005)
At 31 December 2017		**1,500**	**36,482**	**37,982**	**123**	**38,105**
Total comprehensive income for the financial year						
Profit for the financial year, representing total comprehensive income for the financial year		-	8,445	8,445	42	8,487
Transaction with owners:						
Dividends paid on shares	24	-	(5,250)	(5,250)	-	(5,250)
At 31 December 2018		**1,500**	**39,677**	**41,177**	**165**	**41,342**
Adjustment on initial application of MFRS16	2.2	-	(13)	(13)	-	(13)
At 1 January 2019, restated		**1,500**	**39,664**	**41,164**	**165**	**41,329**
Total comprehensive income for the financial year						
Profit for the financial year, representing total comprehensive income for the financial year		-	8,856	8,856	30	8,886
Transactions with owners:						
Changes in ownership interests in a subsidiary	1(a)	-	10	10	(195)	(185)
Dividends paid on shares	24	-	(6,000)	(6,000)	-	(6,000)
Total transactions with owners		-	(5,990)	(5,990)	(195)	(6,185)
At 31 December 2019		**1,500**	**42,530**	**44,030**	**-**	**44,030**

HAILY GROUP BERHAD
Accountants' Report

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

	Note	← Attributable to owners of the Group → Share capital RM'000	Invested equity RM'000	Reorganisation reserve RM'000	Retained earnings RM'000	Sub-total RM'000	Non-controlling interest RM'000	Total equity RM'000
At 1 January 2020		**-**	**1,500**	**-**	**42,530**	**44,030**	**-**	**44,030**
Total comprehensive income for the financial year								
Profit for the financial year, representing total comprehensive income for the financial year		-	-	-	10,444	10,444	-	10,444
Transactions with owners:								
Share issued upon incorporation	13	*	-	-	-	*	-	*
Issue of ordinary shares	13	*	-	-	-	*	-	*
Share issued for acquisition of a subsidiary	13	41,530	-	(41,530)	-	-	-	-
Reorganisation reserve	14	-	(1,500)	1,500	-	-	-	-
Dividends paid on shares	24	-	-	-	(2,500)	(2,500)	-	(2,500)
Total transactions with owners		41,530	(1,500)	(40,030)	(2,500)	(2,500)	-	(2,500)
At 31 December 2020		**41,530**	**-**	**(40,030)**	**50,474**	**51,974**	**-**	**51,974**

* *Less than RM1,000*

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

HAILY GROUP BERHAD
Accountants' Report

STATEMENTS OF CASH FLOWS

	Note	FYE 31 December 2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Cash flows from operating activities					
Profit before tax		16,606	11,941	11,930	14,503
Adjustments for:					
Depreciation of property, plant and equipment	5	974	960	1,197	1,369
Property, plant and equipment written off	20	15	1	-	-
Gain on disposal of property, plant and equipment	18	(174)	(1)	(44)	(7)
Depreciation of investment properties	6	129	144	132	-
Loss on disposal of investment properties	20	-	-	43	-
Finance income	18	(341)	(353)	(207)	(150)
Covid-19 related rent concession income	18	-	-	-	(3)
Finance costs	19	67	33	90	212
Operating profit before changes in working capital		**17,276**	**12,725**	**13,141**	**15,924**
Changes in working capital:					
Trade and other receivables		70	(3,273)	(11,328)	(1,442)
Contract assets		(6,781)	(655)	1,044	(12,953)
Trade and other payables		10,540	2,057	5,414	16,992
Contract liabilities		(8,863)	(1,249)	449	(7,622)
Net cash generated from operations		**12,242**	**9,605**	**8,720**	**10,899**
Income tax paid		(3,809)	(4,173)	(3,140)	(3,190)
Income tax refund		46	707	3,260	1,042
Interest paid		-	-	-	(89)
Net cash flows from operating activities		**8,479**	**6,139**	**8,840**	**8,662**
Cash flows from investing activities					
Acquisition of additional shares in a subsidiary		-	-	(185)	-
Purchase of property, plant and equipment	(a)	(236)	(549)	(730)	(845)
Proceeds from disposal of property, plant and equipment		309	1	47	10
Purchase of investment properties	6	(231)	(263)	-	-
Proceeds from disposal of investment properties		-	-	5,203	-
Purchase of other investments		-	-	-	(1,818)
Change in pledged deposits		10,674	(22)	(24)	(323)
Interest received		341	353	207	150
Net cash flows from/(used in) investing activities		**10,857**	**(480)**	**4,518**	**(2,826)**

HAILY GROUP BERHAD
Accountants' Report

STATEMENTS OF CASH FLOWS (CONTINUED)

	Note	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
		← FYE 31 December			→
Cash flows from financing activities	(b)				
Proceeds from issuance of ordinary shares		-	-	-	*
Repayment of term loans		(234)	(234)	(2,126)	-
Repayment of finance lease liabilities		(1,377)	(465)	-	-
Repayment of lease liabilities		-	-	(763)	(824)
Proceeds from revolving credit		-	-	-	1,000
Repayment of invoice financing		-	-	-	(1,421)
Net changes in amount owing by a related party		(843)	993	830	-
Interest paid		(67)	(33)	(90)	(123)
Dividend paid		(10,005)	(5,250)	(6,000)	(2,500)
Net cash flows used in financing activities		**(12,526)**	**(4,989)**	**(8,149)**	**(3,868)**
Net increase in cash and cash equivalents		**6,810**	**670**	**5,209**	**1,968**
Cash and cash equivalents at the beginning of the financial year		6,658	13,468	14,138	19,347
Cash and cash equivalents at the end of the financial year	(c)	**13,468**	**14,138**	**19,347**	**21,315**

* *Less than RM1,000*

(a) Purchase of property, plant and equipment:

	Note	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
		← FYE 31 December			→
Additions of property, plant and equipment	5	796	949	1,565	1,707
Financed by way of lease arrangements		(560)	(400)	(835)	(862)
Cash payments on purchase of property, plant and equipment		236	549	730	845

During the financial year, the Group had total cash outflows of leases of RM982,958 (2019: RM1,030,855).

HAILY GROUP BERHAD
Accountants' Report

STATEMENTS OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities:

		← Cash flows →		Non-cash	
	1.1.2017	Proceeds	Repayments	Drawndown/ Acquistion	31.12.2017
	RM'000	RM'000	RM'000	RM'000	RM'000
Term loans	2,594	-	(234)	-	2,360
Finance lease liabilities	1,515	-	(1,377)	560	698
Amount owing by a related party	(980)	-	(843)	-	(1,823)
	3,129	-	(2,454)	560	1,235

		← Cash flows →		Non-cash	
	1.1.2018	Proceeds	Repayments	Drawndown/ Acquistion	31.12.2018
	RM'000	RM'000	RM'000	RM'000	RM'000
Term loans	2,360	-	(234)	-	2,126
Finance lease liabilities	698	-	(465)	400	633
Amount owing by a related party	(1,823)	993	-	-	(830)
	1,235	993	(699)	400	1,929

			← Cash flows →		Non-cash	
	1.1.2019	Effect of adoption of MFRS 16	Proceeds	Repayments	Drawndown/ Acquistion	31.12.2019
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Term loans	2,126	-	-	(2,126)	-	-
Lease liabilities	633	1,210	-	(763)	835	1,915
Amount owing by a related party	(830)	-	830	-	-	-
	1,929	1,210	830	(2,889)	835	1,915

		← Cash flows →		← Non-cash →		
	1.1.2020	Proceeds	Repayments	Drawndown /Acquistion	Rent concession	31.12.2020
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Lease liabilities	1,915	-	(824)	862	(3)	1,950
Revolving credit	-	1,000	-	-	-	1,000
Invoice financing	-	-	(1,421)	1,421	-	-
	1,915	1,000	(2,245)	2,283	(3)	2,950

HAILY GROUP BERHAD
Accountants' Report

STATEMENTS OF CASH FLOWS (CONTINUED)

(c) For the purpose of the statements fo cash flows, cash and cash equivalents comprise of the following:

	Note	As at 31 December 2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Short-term deposits	12	914	938	964	1,219
Less: Pledged deposits		(850)	(872)	(896)	(1,219)
		64	66	68	-
Cash and bank balances	12	13,404	14,072	19,279	25,935
Bank overdraft	15	-	-	-	(4,620)
		13,468	14,138	19,347	21,315

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

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Haily Group Berhad was incorporated on 21 February 2020 as a private limited liability company and is domiciled in Malaysia. The Company was converted to a public company limited by shares and assumed its present name on 25 August 2020. The registered office of the Company is located at Suite 5.11 & 5.12, 5th Floor, Menara TJB, No. 9, Jalan Syed Mohd Mufti, 80000 Johor Bahru, Johor. The principal place of business of the Company is located at No. 3339, Jalan Pekeliling Tanjung 27, Kawasan Perindustrian Indahpura, 81000 Kulai, Johor Darul Takzim.

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

Operating entities	Principal place of business/country of incorporation	Principal activities
Haily Construction Sdn. Bhd.	Malaysia	Building construction of residential and non-residential buildings
Haily Machinery Sdn. Bhd.*	Malaysia	Provision of rental of construction machinery

* *Haily Machinery Sdn. Bhd. is the subsidiary of Haily Construction Sdn. Bhd. as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020. The non-controlling interest of the Group are disclosed in Note 1(b).*

There have been no significant changes in the nature of these principal activities during the Financial Years Under Review.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the directors on 15 June 2021.

(a) Increase in equity interests by Haily Construction Sdn. Bhd.

Movement of equity interests in Haily Machinery Sdn. Bhd.

On 1 September 2019, Haily Construction Sdn. Bhd. purchased an additional 10% equity interest (representing 50,000 ordinary shares) in Haily Machinery Sdn. Bhd. from the non-controlling interest with consideration of RM185,000. Haily Construction Sdn. Bhd.'s effective ownership in Haily Machinery Sdn. Bhd. increased from 90% to 100% as a result of the additional shares purchased.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL INFORMATION (CONTINUED)

(a) Increase in equity interests by Haily Construction Sdn. Bhd. (continued)

Movement of equity interests in Haily Machinery Sdn. Bhd. (continued)

Effect of the increase in Haily Machinery Sdn. Bhd.'s ownership interest is as follow:

	2019 RM'000
Fair value of consideration transferred	185
Increase in share of net assets	(195)
Charged directly to equity	(10)

(b) Non-controlling interest in operating entity

The financial information of the Group's operating entity that has non-controlling interest is as follows:

Equity interest held by non-controlling interest:

	Ownership interest As at 31 December	
	2017 (%)	2018 (%)
Name of company		
Haily Machinery Sdn. Bhd.	10	10

Carrying amount of non-controlling interest:

	As at 31 December	
	2017 RM'000	2018 RM'000
Name of company		
Haily Machinery Sdn. Bhd.	123	165

Profit or loss allocated to non-controlling interest:

	FYE 31 December	
	2017 RM'000	2018 RM'000
Name of company		
Haily Machinery Sdn. Bhd.	42	42

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. GENERAL INFORMATION (CONTINUED)

(c) Summarised financial information (before intra-group elimination) of the Group that have non-controlling interest are as follows:

	Haily Machinery Sdn. Bhd. RM'000
Summarised statement of financial position	
As at 31 December 2018	
Current assets	1,830
Non-current assets	6
Current liabilities	(184)
Net assets	1,652
Summarised statement of comprehensive income	
Financial year ended 31 December 2018	
Revenue	1,697
Profit for the financial year	427
Summarised cash flows information	
Financial year ended 31 December 2018	
Cash flows from operating activities	487
Net increase in cash and cash equivalents	487
Summarised statement of financial position	
As at 31 December 2017	
Current assets	1,374
Non-current assets	43
Current liabilities	(192)
Net assets	1,225
Summarised statement of comprehensive income	
Financial year ended 31 December 2017	
Revenue	1,677
Profit for the financial year	417
Summarised cash flows information	
Financial year ended 31 December 2017	
Cash flows from operating activities	614
Cash flows used in financing activities	(11)
Net increase in cash and cash equivalents	603

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION

The financial statements of Haily Group Berhad for the financial years ended 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020 have been prepared pursuant to the listing of and quotation for the entire issued share capital of Haily Group Berhad on the ACE Market of Bursa Malaysia Securities Berhad, the financial statements comprise:

(i) The combined statements of financial position as at 31 December 2017, 31 December 2018 and 31 December 2019, the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years then ended; and

(ii) The consolidated statements of financial position as at 31 December 2020, the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the financial year then ended.

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

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

<u>Combined financial statements of the Group for the FYE 31 December 2017, 31 December 2018 and FYE 31 December 2019</u>

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

Combined financial statements of the Group for the FYE 31 December 2017, 31 December 2018 and FYE 31 December 2019 (continued)

The financial statements of Haily Group Berhad consist of the financial statements of the following entities under common control which is accounted using the merger method of accounting (collectively hereinafter referred to as the "Group") for each of the financial years:

	FYE 31 December		
Entities Under Common Control	**2017**	**2018**	**2019**
Haily Group Berhad	$	$	$
Haily Construction Sdn. Bhd.	√,@	√,^	√,^
Haily Machinery Sdn. Bhd.	√,@	√,^	√,^

$ *No financial statements were available for Haily Group Berhad as the Company was incorporated on 21 February 2020.*

√ *The combined financial statements of the Group include the financial statements of these combining entities prepared in accordance with the Malaysian Financial Reporting Standards ("MFRSs") and the International Financial Reporting Standards ("IFRSs") for the respective financial years.*

@ *The combined financial statements of the Group for the FYE 31 December 2017 have been prepared based on the audited financial statements which were re-audited by Baker Tilly Monteiro Heng PLT for the purpose of inclusion into the combined financial statements of the Group. The audited financial statements which was lodged with Companies Commission of Malaysia were audited by a firm of chartered accountants other than Baker Tilly Monteiro Heng PLT.*

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

The audited financial statements of all the operating entities within the Group for the relevant years reported above were not subject to any modifications.

Consolidated financial statements of the Group for FYE 31 December 2020

The consolidated financial statements of the Group for FYE 31 December 2020 were prepared based on the audited consolidated financial statements of the Company for FYE 31 December 2020. The audited financial statements used were not subject to any modications.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

Consolidated financial statements of the Group for FYE 31 December 2020 (continued)

The financial statements of Haily Group Berhad consist of the financial statements of the following entities for FYE 31 December 2020:

Operating Entities	FYE 31 December 2020
Haily Group Berhad	#
Haily Construction Sdn. Bhd.	#
Haily Machinery Sdn. Bhd.	#

\# *The consolidated financial statements of the Group for the FYE 31 December 2020 have been prepared based on the audited financial statements which were audited by Baker Tilly Monteiro Heng PLT. The audited financial statements of these entities prepared in accordance with the MFRSs and IFRSs.*

2.1 Statement of compliance

The financial statements of the Group have been prepared in accordance with the MFRSs and IFRSs.

2.2 Changes in accounting polices

(i) MFRS 16 Leases

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.2 Changes in accounting polices (continued)

(i) MFRS 16 Leases (continued)

Definition of a lease

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

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

Impact of the adoption of MFRS 16

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

(a) Classification and measurement

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

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

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

For leases that were classified as operating lease under MFRS 117

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.2 Changes in accounting polices (continued)

(i) MFRS 16 Leases (continued)

Impact of the adoption of MFRS 16 (continued)

(a) Classification and measurement (continued)

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

The right-of-use assets were measured at either:
(a) their carrying amount as if MFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application. The Group applied this approach to its largest property leases; or
(b) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all other leases.

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

For leases that were classified as finance lease under MFRS 117

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

(b) Short-term lease and low value assets

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.2 Changes in accounting polices (continued)

(i) MFRS 16 Leases (continued)

Impact of the adoption of MFRS 16 (continued)

The following is reconciliation of the financial statement line items from MFRS 117 to MFRS 16 at 1 January 2019:

	Carrying amount as at 31 December 2018 RM'000	Remeasurement RM'000	MFRS 16 carrying amount as at 1 January 2019 RM'000
Property, plant and equipment	2,219	1,197	3,416
Retained earnings	(39,677)	13	(39,664)
Loans and borrowings	(2,759)	(1,210)	(3,969)

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments disclosed applying MFRS 117 as of 31 December 2018, as follows:

	Group RM'000
Operating lease commitments at 31 December 2018	949
Discounted operating lease commitments using the incremental borrowing rates as at 1 January 2019	897
Recognition exemption for short-term leases	(291)
Extension options reasonably certain to be exercised	604
Lease liabilities recognised at 1 January 2019	1,210

(ii) Amendment to MFRS 16 Leases

The Group has early adopted the amendment to MFRS 16 that exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the Coronavirus Disease ("Covid-19") pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to Covid-19-related rent concessions that reduce lease payments due on or before 30 June 2021.

The Group elected the practical expedient not to assess whether a rent concession received from landlord is a lease modification. The effect of adoption of the above amendment is disclosed in Note 18 to the financial statements as rent concession income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

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

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

		Effective for financial periods beginning on or after
New MFRS		
MFRS 17	Insurance Contracts	1 January 2023
Amendments/Improvements to MFRSs		
MFRS 1	First-time Adoption of MFRSs	1 January 2022^/ 1 January 2023#
MFRS 3	Business Combinations	1 January 2022/ 1 January 2023#
MFRS 4	Insurance Contracts	1 January 2021/ 1 January 2023
MFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2023#
MFRS 7	Financial Instruments: Disclosures	1 January 2021/ 1 January 2023#
MFRS 9	Financial Instruments	1 January 2021/ 1 January 2022^/ 1 January 2023#
MFRS 10	Consolidated Financial Statements	Deferred
MFRS 15	Revenue from Contracts with Customers	1 January 2023#
MFRS 16	Leases	1 January 2021/ 1 January 2022^
MFRS 17	Insurance Contracts	1 January 2023
MFRS 101	Presentation of Financial Statements	1 January 2023/ 1 January 2023#
MFRS 107	Statements of Cash Flows	1 January 2023#
MFRS 108	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2023
MFRS 116	Property, Plant and Equipment	1 January 2022/ 1 January 2023#
MFRS 119	Employee Benefits	1 January 2023#
MFRS 128	Investments in Associates and Joint Ventures	Deferred/ 1 January 2023#
MFRS 132	Financial Instruments: Presentation	1 January 2023#
MFRS 136	Impairment of Assets	1 January 2023#
MFRS 137	Provisions, Contingent Liabilities and Contingent Assets	1 January 2022/ 1 January 2023#
MFRS 138	Intangible Assets	1 January 2023#
MFRS 139	Financial Instruments: Recognition and Measurement	1 January 2021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

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

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

		Effective for financial periods beginning on or after
Amendments/Improvements to MFRSs (continued)		
MFRS 140	Investment Property	1 January 2023#
MFRS 141	Agriculture	1 January 2022^

^ *The Annual Improvements to MFRSs 2018-2020*
\# *Consequential amendments as a result of MFRS 17 Insurance Contracts*

2.3.2 The Group plans to adopt the above applicable new MFRS and amendments/improvements to MFRSs when they become effective. A brief discussion on the above significant new MFRS and amendments/improvements to MFRSs that may be applicable to the Group are summarised below:

Annual Improvements to MFRSs 2018–2020

Annual Improvements to MFRSs 2018–2020 covers amendments to:

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

Amendments to MFRS 3 Business Combinations

The amendments update MFRS 3 by replacing a reference to an old version of the Conceptual Framework for Financial Reporting with a reference to the latest version which was issued by Malaysian Accounting Standards Board in April 2018.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

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

2.3.2 The Group plans to adopt the above applicable new MFRS and amendments/improvements to MFRSs when they become effective. A brief discussion on the above significant new MFRS and amendments/improvements to MFRSs that may be applicable to the Group are summarised below: (continued)

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

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

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

Amendments to MFRS 9 Financial Instruments, MFRS 139 Financial Instruments: Recognition and Measurement, MFRS 7 Financial Instruments: Disclosures, MFRS 4 Insurance Contracts and MFRS 16 Leases

The *Interest Rate Benchmark Reform—Phase 2* amends some specific requirements in MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16, with respect to issues that affect financial reporting during the reform of an interest rate benchmark.

The amendments provide a practical expedient whereby an entity would not derecognise or adjust the carrying amount of financial instruments for modifications required by interest rate benchmark reform, but would instead update the effective interest rate to reflect the change in the interest rate benchmark. On hedging relationship, entities would be required to amend the formal designation of a hedging relationship to reflect the modifications and/or changes made to the hedged item and/or hedging instruments as a result of the reform. However, the modification does not constitute discontinuation of the hedging relationship nor the designation of a new hedging relationship.

Amendments to MFRS 101 Presentation of Financial Statements

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

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

2.3.2 The Group plans to adopt the above applicable new MFRS and amendments/improvements to MFRSs when they become effective. A brief discussion on the above significant new MFRS and amendments/improvements to MFRSs that may be applicable to the Group are summarised below: (continued)

Amendments to MFRS 101 Presentation of Financial Statements (continued)

The amendments require an entity to disclose its material accounting policy information rather than significant accounting policies. The amendments, amongst others, also include examples of circumstances in which an entity is likely to consider an accounting policy information to be material to its financial statements. To support this amendments, MFRS Practice Statement 2 was also amended to provide guidance on how to apply the concept of materiality to accounting policy information disclosures. The guidance and examples provided in the MFRS Practice Statement 2 highlight the need to focus on entity-specific information and demonstrate how the four-step materiality process can address standardised (or boilerplate) information and duplication of requirements of MFRSs in the accounting policy information disclosures.

Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors

The amendments revise the definition of accounting estimates to clarify how an entity should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because the changes in accounting estimates are applied prospectively to transactions, other events, or conditions from the date of that change, but changes in accounting policies are generally also applied retrospectively to past transactions and other past events.

Amendments to MFRS 116 Property, Plant and Equipment

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

Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets

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

2.3.3 The initial application of the above applicable new MFRS and amendments/ improvements to MFRSs are not expected to have any material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. BASIS OF PREPARATION (CONTINUED)

2.4 Functional and presentation currency

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

2.5 Basis of measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of combination/consolidation

The financial statements comprise the financial statements of the Company and its subsidiaries. The financial statements of the subsidiaries used in the preparation of the financial statements are prepared for the same reporting date as Haily Group Berhad. Consistent accounting policies are applied to like transactions and events in similar circumstances.

(a) Subsidiaries and business combination

Subsidiaries are entities (including structured entities) over which the Group is exposed, or has rights, to variable returns from its involvement with the acquirees and has the ability to affect those returns through its power over the acquirees.

The financial statements of subsidiaries are included in the financial statements from the date the Group obtains control of the acquirees until the date the Group loses control of the acquirees.

The Group applies the merger method of accounting.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of combination/consolidation (continued)

(a) Subsidiaries and business combination (continued)

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

Entities under a reorganisation scheme does not result in any change in economic substance. Accordingly, the 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 are recognised and measured in the 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 Company and the differences arising from the change in equity structure of the Group will be accounted for in other reserves.

For a new acquisition, goodwill is initially measured at cost, being the excess of the following:

- the fair value of the consideration transferred, calculated as the sum of the acquisition-date fair value of assets transferred (including contingent consideration), the liabilities incurred to former owners of the acquiree and the equity instruments issued by the Group. Any amounts that relate to pre-existing relationships or other arrangements before or during the negotiations for the business combination, that are not part of the exchange for the acquiree, will be excluded from the business combination accounting and be accounted for separately; plus
- the recognised amount of any non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets at the acquisition date (the choice of measurement basis is made on an acquisition-by-acquisition basis); plus
- if the business combination is achieved in stages, the acquisition-date fair value of the previously held equity interest in the acquiree; less
- the net fair value of the identifiable assets acquired and the liabilities (including contingent liabilities) assumed at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of combination/consolidation (continued)

(a) Subsidiaries and business combination (continued)

The accounting policy for goodwill is set out in Note 3.6.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

If the business combination is achieved in stages, the Group remeasures the previously held equity interest in the acquiree to its acquisition-date fair value, and recognises the resulting gain or loss, if any, in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss or transferred directly to retained earnings on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combinations occurs, the Group uses provisional fair value amounts for the items for which the accounting is incomplete. The provisional amounts are adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date, including additional assets or liabilities identified in the measurement period. The measurement period for completion of the initial accounting ends as soon as the Group receives the information it was seeking about facts and circumstances or learns that more information is not obtainable, subject to the measurement period not exceeding one year from the acquisition date.

Upon the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the former subsidiary, any non-controlling interests and the other components of equity related to the former subsidiary from the statement of financial position. Any gain or loss arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an associate, a joint venture, an available-for-sale financial asset or held for trading financial asset.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Basis of combination/consolidation (continued)

(a) Subsidiaries and business combination (continued)

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The difference between the Group's share of net assets before and after the change, and the fair value of the consideration received or paid, is recognised directly in equity.

(b) Non-controlling interest

Non-controlling interest represents the equity in subsidiary not attributable, directly or indirectly, to owners of Haily Group Berhad and are presented separately in the statements of financial position within equity.

Losses attributable to the non-controlling interest are allocated to the non-controlling interest even if the losses exceed the non-controlling interest.

(c) Transactions eliminated on combination

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

3.2 Financial instruments

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

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

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

(a) Subsequent measurement

The Group categorises the financial instruments as follows:

(i) Financial assets

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

- Financial assets at amortised cost;
- Financial assets at fair value through other comprehensive income with recycling of cumulative gains and losses upon derecognition;
- Financial assets designated at fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition; and
- Financial assets at FVPL.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

(a) Subsequent measurement (continued)

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

(i) Financial assets (continued)

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

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

- **Fair value through other comprehensive income ("FVOCI")**
Financial assets that are held for collection of contractual cash flows and for selling the financial assets, and the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. For debt instruments at FVOCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. The policy for the recognition and measurement of impairment is in accordance with Note 3.9(a). Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

(a) Subsequent measurement (continued)

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

(i) Financial assets (continued)

Debt instruments (continued)

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

(a) Subsequent measurement (continued)

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

(ii) Financial liabilities

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

- Financial liabilities at FVPL
- Financial liabilities at amortised cost

Financial liabilities at FVPL

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

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

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

Financial liabilities at amortised cost

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

(b) Financial guarantee contracts

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

(c) Regular way purchase or sale of financial assets

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

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

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

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

(d) Derecognition

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial instruments (continued)

(d) Derecognition (continued)

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

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

(e) Offsetting of financial instruments

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

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

3.3 Property, plant and equipment

(a) Recognition and measurement

Property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.9(b).

Cost of assets includes expenditures that are directly attributable to the acquisition of the asset and any other costs that are directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes cost of materials, direct labour, and any other direct attributable costs but excludes internal profits. For qualifying assets, borrowing costs are capitalized in accordance with the accounting policy on borrowing costs in Note 3.15.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Property, plant and equipment (continued)

(b) Subsequent costs

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

(c) Depreciation

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

	Useful lives (years)
Motor vehicles	5
Plant and machinery	5 - 10
Furniture and fittings	10
Office equipment	5 - 10
Office renovation	10
Computer	5 - 10

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

(d) Derecognition

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

3.4 Leases

(a) Definition of a lease

<u>Accounting policies applied from 1 January 2019</u>

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Leases (continued)

(a) Definition of a lease (continued)

Accounting policies applied until 31 December 2018

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

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

(b) Lessee accounting

Accounting policies applied from 1 January 2019

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

The Group presents right-of-use assets that do not meet the definition of investment property in Note 5 and lease liabilities in Note 15.

Right-of-use asset

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Leases (continued)

(b) Lessee accounting (continued)

Accounting policies applied from 1 January 2019 (continued)

Lease liability

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Leases (continued)

(b) Lessee accounting (continued)

Accounting policies applied from 1 January 2019 (continued)

Lease liability (continued)

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

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

Short-term leases and leases of low value assets

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

Accounting policies applied until 31 December 2018

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Leases (continued)

(c) Lessor accounting

Accounting policies applied from 1 January 2019

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

When the Group is intermediate lessors, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the exemption described in Note 3.4(b), then it classifies the sub-lease as an operating lease.

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

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

When a contract includes lease and non-lease components, the Group applies MFRS 15 *Revenue from Contracts with Customers* to allocate the consideration under the contract to each component.

Accounting policies applied until 31 December 2018

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 Investment properties

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

Investment properties are initially measured at cost, including transaction costs. The Group uses the cost model to measure its investment properties after initial recognition. Accordingly, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. The policy for the recognition and measurement of the impairment losses is in accordance with Note 3.9(b).

Cost includes purchase price and any directly attributable costs incurred to bring the property to its present location and condition intended for use as an investment property. The cost of a self-constructed investment property includes the cost of material, direct labour and any other direct attributable costs. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs in Note 3.15.

Investment properties are depreciated on straight-line basis by allocating their depreciable amounts over their remaining useful lives.

	Useful lives (years)
Buildings	50
Renovation	10

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Goodwill

Goodwill arising from business combinations is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The policy for the recognition and measurement of impairment losses is in accordance with Note 3.9(b).

3.7 Contract assets/(liabilities)

Contract asset is the right to consideration for goods or services transferred to the customers when that right is conditioned on something other than the passage of time (for example, the Group's future performance). The policy for the recognition and measurement of impairment losses is in accordance with Note 3.9(a).

Contract liability is the obligation to transfer goods or services to customer for which the Group has received the consideration or has billed the customer.

3.8 Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash in hand, bank balances and deposits with a maturity of three months or less, that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are presented net of bank overdrafts.

3.9 Impairment of assets

(a) Impairment of financial assets and contract assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment of assets (continued)

(a) Impairment of financial assets and contract assets (continued)

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

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

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

- the borrower is unable to pay its credit obligations to the Group in full, without taking into account any credit enhancements held by the Group; or
- the contractual payment of the financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment of assets (continued)

(a) Impairment of financial assets and contract assets (continued)

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

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

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

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

(b) Impairment of non-financial assets

The carrying amounts of non-financial assets (except for contract assets and deferred tax assets) are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the Group makes an estimate of the assets' recoverable amount. For goodwill, the recoverable amount is estimated at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Impairment of assets (continued)

(b) Impairment of non-financial assets (continued)

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of non-financial assets or cash-generating units ("CGUs"). Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to a CGU or a group of CGUs that are expected to benefit from the synergies of business combination.

The recoverable amount of an asset of a CGU is the higher of its fair value less costs of disposal and its value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In determining the fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Where the carrying amount of an asset exceeds its recoverable amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses recognised in respect of a CGU or groups of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to those units or groups of units and then, to reduce the carrying amount of the other assets in the unit of groups of units on a pro-rata basis.

Impairment losses are recognised in profit or loss, except for assets that were previously revalued with the revaluation surplus recognised in other comprehensive income. In the latter case, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

Impairment losses in respect of goodwill are not reversed. For other assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. An impairment loss is reversed only if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. Reversal of impairment loss is restricted by the asset's carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10 Equity instruments

Ordinary shares

Ordinary shares are equity instruments. An equity instrument is a contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Ordinary shares are recorded at the proceeds received, net of directly attributable incremental transaction costs. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

3.11 Employee benefits

(a) Short-term employee benefits

Short-term employee benefit obligations in respect of wages, salaries, social security contributions, annual bonuses, paid annual leave, sick leave and non-monetary benefits are recognised as an expense in the financial year where the employees have rendered their services to the Group.

(b) Defined contribution plans

As required by law, the Group contributes to the Employees Provident Fund, the national defined contribution plan. Such contributions are recognised as an expense in the profit or loss in the period in which the employees render their services.

3.12 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

If the effect of the time value of money is material, provisions that are determined based on the expected future cash flows to settle the obligation are discounted using a current pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When discounting is used, the increase in the provisions due to passage of time is recognised as finance costs.

Provisions are reviewed at each reporting date 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Revenue and other income

The Group recognises revenue that depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Group measures revenue from sales of good or service at its transaction price, being the amount of consideration to which the Group expects to be entitled in exchange for transferring promised good or service to a customer, excluding amounts collected on behalf of third parties such as sales and service tax, adjusted for the effects of any variable consideration, constraining estimates of variable consideration, significant financing components, non-cash consideration and consideration payable to customer.

For contract with separate performance obligations, the transaction price is allocated to the separate performance obligations on the relative stand-alone selling price basis. If the stand-alone selling price is not directly observable, the Group estimates it by using the costs plus margin approach.

Revenue from contracts with customers is recognised by reference to each distinct performance obligation in the contract with customer, i.e. when or as a performance obligation in the contract with customer is satisfied. A performance obligation is satisfied when or as the customer obtains control of the good or service underlying the particular performance obligation, which the performance obligation may be satisfied at a point in time or over time.

A contract modification is a change in the scope or price (or both) of a contract that is approved by the parties to the contract. A modification exists when the change either creates new or changes existing enforceable rights and obligations of the parties to the contract. The Group has assessed the type of modification and accounted for as either creates a separate new contract, terminates the existing contract and creation of a new contract; or forms a part of the existing contracts.

Financing components
The Group has applied the practical expedient for not to adjust the promised amount of consideration for the effects of a significant financing components if the Group expects that the period between the transfer of the promised goods or services to the customer and payment by the customer will be one year or less.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13 Revenue and other income (continued)

(a) Construction contracts

The Group is a general construction contractor. It constructs properties under long-term and short-term contracts with customers. Construction service contracts comprise multiple deliverables that require significant integration service and therefore accounted as a single performance obligation.

Under the terms of the contracts, control of the properties is transferred over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. The progress towards complete satisfaction of a performance obligation is determined by the proportion of construction costs incurred for work performed to date bear to the estimated total construction costs (an input method).

Billings are made with a credit term of 30 days to 90 days, which is consistent with market practice, therefore, no element of financing is deemed present. The Group become entitled to invoice customers for construction of properties based on achieving a series of performance-related milestones.

The Group recognised a contract asset for any excess of revenue recognised to date over the billings-to-date. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point when invoice is issued or timing for billing is due to passage of time. If the milestone billing exceeds the revenue recognised to date and any deposit or advances received from customers then the Group recognises a contract liability for the difference.

(b) Rendering of services

Revenue from hiring services is recognised when the Group satisfied its performance obligation upon rendering its services.

(c) Interest income

Interest income is recognised using the effective interest method.

(d) Rental income

Rental income from investment properties are recognised on a straight-line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Where the grant relates to an asset, it is recognised as deferred income in the statements of financial position and transferred to profit or loss over the expected useful life of the related asset. Where the grant relates to an expense item, it is recognised in profit or loss, under the heading of "other income", on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

The benefit derived from a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3.15 Borrowing costs

Borrowing costs are interests and other costs that the Group incurs in connection with borrowing of funds.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

The Group begins capitalising borrowing costs when the Group has incurred the expenditures for the asset, incurred related borrowing costs and undertaken activities that are necessary to prepare the asset for its intended use or sale.

3.16 Income tax

Income tax expense in profit or loss comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

(a) Current tax

Current tax is the expected taxes payable or receivable on the taxable income or loss for the financial year, using the tax rates that have been enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Income tax (continued)

(b) Deferred tax

Deferred tax is recognised using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts in the statements of financial position. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences, unutilised tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax is not recognised if the temporary differences arise from the initial recognition of assets and liabilities in a transaction which is not a business combination and that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches, associates and interests in joint ventures, except where the Group is able to control the reversal timing of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Income tax (continued)

(b) Deferred tax (continued)

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle their income tax recoverable and income tax payable on a net basis or their tax assets and liabilities will be realised simultaneously.

(c) Sales and services tax

Revenue, expenses and assets are recognised net of the amount of sales and services tax except:

- where the sales and services tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales and services tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales and services tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statements of financial position.

3.17 Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares.

3.18 Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Chief Executive Officer of the Group, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision maker that makes strategic decisions.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.19 Fair value measurements

Fair value of an asset or a liability, except for share-based payment and lease transactions, is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For a non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy as of the date of the event or change in circumstances that caused the transfers.

3.20 Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liability is also referred as a present obligation that arises from past events but is not recognised because:

(a) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
(b) the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities and assets are not recognised in the statements of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

The areas involving a higher degree of judgement or complexity that have the most significant effect on the Group's financial statements, or areas where assumptions and estimates that have a significant risk of resulting in a material adjustment to the Group's financial statements within the next financial year are disclosed as follows:

(a) Classification between investment properties and property, plant and equipment

Certain property comprises a portion that is held to earn rental income or capital appreciation, or for both, whilst the remaining portion is held for use in the production or supply of goods and services or for administrative purposes. If the portion held for rental and/or capital appreciation could be sold separately (or leased out separately as a finance lease), the Group accounts for that portion as an investment property. If the portion held for rental and/or capital appreciation could not be sold or leased out separately, it is classified as an investment property only if an insignificant portion of the property is held for use in the production or supply of goods and services or for administrative purposes. Management uses judgement to determine whether any ancillary services are of such significance that a property does not qualify as an investment property.

(b) Determination of lease term

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether they are reasonably certain to exercise the option to renew or terminate the lease. The Group considers all relevant factors that create an economic incentive for it to exercise the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(c) Depreciation and useful lives of property, plant and equipment and investment properties

As disclosed in Notes 3.3(c) and 3.5, the Group reviews the residual values, useful lives and depreciation methods at the end of each reporting period. Estimates are applied in the selection of the depreciation method, the useful lives and the residual values. The actual consumption of the economic benefits of the property, plant and equipment and investment properties may differ from the estimates applied and therefore, future depreciation charges could be revised.

The carrying amounts of the Group's property, plant and equipment and investment properties are disclosed in Notes 5 and 6.

(d) Impairment of financial assets and contract assets

The impairment provisions for financial assets and contract assets are based on assumptions about risk of default and expected loss rate. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

The assessment of the correlation between historical observed default rates, forward-looking estimates and expected credit losses is a significant estimate. The amount of expected credit losses is sensitive to changes in circumstances and of forecast economic conditions over the expected lives of the financial assets. 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 impairment losses on the Group's financial assets and contract assets are disclosed in Note 25(b)(i).

(e) Measurement of income taxes

Significant judgement is required in determining the Group's estimation for current and deferred taxes because the ultimate tax liability for the Group as a whole is uncertain. When the final outcome of the tax payable is determined with the tax authorities, the amounts might be different from the initial estimates of the taxes payable. Such differences may impact the current and deferred taxes in the period when such determination is made. The Group will make adjustments for current or deferred taxes in respect of prior years in the current period on those differences arise.

The income tax expense of the Group is disclosed in Note 22.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(f) Impairment of non-financial assets

The Group assesses impairment of non-financial assets whenever the events or changes in circumstances indicate that the carrying amount of an asset may be irrecoverable i.e. the carrying amount of the asset is more than the recoverable amount.

Recoverable amount is measured at the higher of the fair value less cost of disposal for that asset and its value-in-use. The Group uses fair value less cost to sell as the recoverable amount. Fair values are arrived at using comparison method and valuation technique method to suit the assets characteristic of the Group.

The carrying amounts of the non-financial assets are disclosed in Notes 5, 6 and 8.

(g) Contingent liabilities

The Group exercises judgement in measuring and recognising provisions and the exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, arbitration or government regulation. Judgement is required to assess the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of any financial settlement. The inherent uncertainty of such matters means that actual losses may materially differ from estimates.

(h) Construction revenue and expenses

The Group recognised construction revenue and expenses in profit or loss by using the progress towards completion satisfaction of performance obligation. The progress towards completion satisfaction of performance obligation is determined by the proportion that construction costs incurred for work performed to date bear to the estimated total construction costs.

Significant judgement is required in determining the progress towards completion satisfaction of performance obligation, the extent of the construction costs incurred, the estimated total construction revenue and expenses, as well as the recoverability of the construction projects. In making the judgement, the Group evaluates based on past experience and by relying on the work of specialists.

The carrying amounts of contract assets and contract liabilities are disclosed in Note 11.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT

	Note	Motor vehicles RM'000	Plant and machinery RM'000	Furniture and fittings RM'000	Office equipment RM'000	Office renovation RM'000	Computer RM'000	Right-of-use assets RM'000	Total RM'000
Cost									
At 1 January 2017		5,934	870	272	453	31	88	-	7,648
Additions		742	-	-	33	-	21	-	796
Disposals		(584)	-	-	-	-	-	-	(584)
Write off		-	(23)	-	(9)	-	(4)	-	(36)
At 31 December 2017		6,092	847	272	477	31	105	-	7,824
Additions		543	-	186	182	-	38	-	949
Disposals		(18)	-	-	-	-	-	-	(18)
Write off		-	-	-	(1)	-	-	-	(1)
At 31 December 2018		6,617	847	458	658	31	143	-	8,754
Adjustment on initial application of MFRS 16	2.2	(1,692)	-	-	-	-	-	3,009	1,317
Adjusted balance as at 1 January 2019		4,925	847	458	658	31	143	3,009	10,071
Additions		172	96	78	77	-	35	1,107	1,565
Disposals		(119)	(14)	-	-	-	-	-	(133)
Write off		(96)	-	-	(1)	-	-	-	(97)
Reclassification		410	-	-	-	-	-	(410)	-
At 31 December 2019		5,292	929	536	734	31	178	3,706	11,406
Additions		303	63	24	93	-	66	1,158	1,707
Disposals		(15)	(14)	-	-	-	-	-	(29)
Write off		(3)	-	-	-	-	-	-	(3)
Reclassification		743	-	-	-	-	-	(743)	-
Derecognition due to end of lease term		-	-	-	-	-	-	(4)	(4)
At 31 December 2020		6,320	978	560	827	31	244	4,117	13,077

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Motor vehicles RM'000	Plant and machinery RM'000	Furniture and fittings RM'000	Office equipment RM'000	Office renovation RM'000	Computer RM'000	Right-of-use assets RM'000	Total RM'000
Accumulated depreciation									
At 1 January 2017		4,352	254	99	308	25	51	-	5,089
Depreciation charge for the financial year	20	786	84	27	62	3	12	-	974
Disposals		(449)	-	-	-	-	-	-	(449)
Write off		-	(13)	-	(5)	-	(3)	-	(21)
At 31 December 2017		4,689	325	126	365	28	60	-	5,593
Depreciation charge for the financial year	20	741	83	46	71	3	16	-	960
Disposals		(18)	-	-	-	-	-	-	(18)
Write off		-	-	-	(*)	-	-	-	(*)
At 31 December 2018		5,412	408	172	436	31	76	-	6,535
Adjustment on initial application of MFRS 16	2.2	(651)	-	-	-	-	-	771	120
Adjusted balance as at 1 January 2019		4,761	408	172	436	31	76	771	6,655
Depreciation charge for the financial year	20	223	94	44	64	-	19	753	1,197
Disposals		(119)	(11)	-	-	-	-	-	(130)
Write off		(96)	-	-	(1)	-	-	-	(97)
Reclassification		301	-	-	-	-	-	(301)	-
At 31 December 2019		5,070	491	216	499	31	95	1,223	7,525
Depreciation charge for the financial year	20	296	106	47	71	-	30	819	1,369
Disposals		(15)	(11)	-	-	-	-	-	(26)
Write off		(3)	-	-	-	-	-	-	(3)
Reclassification		476	-	-	-	-	-	(476)	-
Derecognition due to end of lease term		-	-	-	-	-	-	(4)	(4)
At 31 December 2020		5,824	586	263	570	31	125	1,562	8,961

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Note	Motor vehicles RM'000	Plant and machinery RM'000	Furniture and fittings RM'000	Office equipment RM'000	Office renovation RM'000	Computer RM'000	Right-of-use assets RM'000	Total RM'000
Carrying amount									
At 31 December 2017		1,403	522	146	112	3	45	-	2,231
At 31 December 2018		1,205	439	286	222	-	67	-	2,219
At 31 December 2019		222	438	320	235	-	83	2,483	3,781
At 31 December 2020		496	392	297	257	-	119	2,555	4,116

* *Less than RM1,000*

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Assets under finance lease

The carrying amount of assets under finance lease arrangements are as follows:

	As at 31 December	
	2017	2018
	RM'000	RM'000
Motor vehicles	1,149	1,041

(b) Assets pledged as security

Leased assets are pledged as security for the related finance lease liabilities and lease liabilities as disclosed in Notes 15(b) and 15(c).

(c) Right-of-use assets

The Group leases buildings and equipment for its office space and operation. The leases are mainly for an initial lease of two (2) to five (5) years. The Group has options to renew one of the lease buildings for another three (3) years. As at 31 December 2019 and 31 December 2020, the Group has included the potential future cash flows of exercising the extension options in the lease liability.

The Group also has leased certain motor vehicles with lease term of three (3) years and such leases do not have terms of renewal which give the Group an option to purchase at nominal values at the end of the lease term. The effective interest rate implicit in the leases ranges from 3.60% to 7.09% (2019: 3.60% to 7.09%, 2018: 3.60% to 5.27% and 2017: 3.60% to 6.42%).

Information about leases for which the Group is lessees is presented below:

	Office buildings RM'000	Office equipment RM'000	Motor vehicles RM'000	Total RM'000
Carrying amount				
At 1 January 2019	1,160	37	1,041	2,238
Additions	25	-	1,082	1,107
Depreciation	(215)	(11)	(527)	(753)
Reclassification	-	-	(109)	(109)
At 31 December 2019	970	26	1,487	2,483
Additions	-	15	1,143	1,158
Depreciation	(224)	(12)	(583)	(819)
Reclassification	-	-	(267)	(267)
At 31 December 2020	746	29	1,780	2,555

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. INVESTMENT PROPERTIES

	Note	Buildings RM	Renovation RM	Total RM
Cost				
At 1 January 2017		5,256	7	5,263
Additions		-	231	231
At 31 December 2017		5,256	238	5,494
Additions		142	121	263
At 31 December 2018		5,398	359	5,757
Disposals		(5,398)	(359)	(5,757)
At 31 December 2019		-	-	-
Accumulated depreciation				
At 1 January 2017		105	1	106
Depreciation charge for the financial year	20	105	24	129
At 31 December 2017		210	25	235
Depreciation charge for the financial year	20	108	36	144
At 31 December 2018		318	61	379
Depreciation charge for the financial year	20	99	33	132
Disposals		(417)	(94)	(511)
At 31 December 2019		-	-	-
Carrying amount				
At 31 December 2017		5,046	213	5,259
At 31 December 2018		5,080	298	5,378
At 31 December 2019		-	-	-

The investment properties have been pledged as security to secure banking facilities of the Group as disclosed in Note 15.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. INVESTMENT PROPERTIES (CONTINUED)

The following are recognised in profit or loss in respect of investment properties:

	FYE 31 December		
	2017	**2018**	**2019**
	RM'000	**RM'000**	**RM'000**
Rental income	169	199	188
Direct operating expenses:			
- income generating investment properties	(88)	(83)	(75)
- non-income generating investment properties	(106)	(140)	(109)

Fair value information

The fair value of investment properties of approximately NIL (2019: NIL, 2018: RM6,400,000 and 2017: RM6,796,065) is categorised at Level 3 of the fair value hierarchy.

There are no Level 1 and Level 2 investment property or transfer between Level 1, Level 2 and Level 3 during the financial years ended 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020.

Level 3 fair value

The following table shows the valuation techniques used in the determination of fair values within Level 3, as well as significant unobservable inputs used in the valuation models.

Description	Valuation technique	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Buildings	Sales comparison approach	Price per square feet for 2020: NIL (2019: NIL, 2018: RM472 and 2017: RM501)	The higher the price per square feet, the higher the fair value

Valuation processes applied by the Group

The Group's finance department includes a team that performs valuation analysis of buildings. This team reports directly to the director.

Highest and best use

In estimating the fair value of the properties, the highest and best use of the properties are their current use.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. DEFERRED TAX ASSET/(LIABILITIES)

Deferred tax relates to the following:

	As at 1 January 2017 RM'000	Recognised in profit or loss RM'000 (Note 22)	As at 31 December 2017 RM'000
Deferred tax asset:			
Property, plant and equipment	26	(7)	19
Deferred tax liability:			
Property, plant and equipment	(170)	(23)	(193)
	(144)	(30)	(174)

	As at 1 January 2018 RM'000	Recognised in profit or loss RM'000 (Note 22)	As at 31 December 2018 RM'000
Deferred tax asset:			
Property, plant and equipment	19	(13)	6
Deferred tax liability:			
Property, plant and equipment	(193)	40	(153)
	(174)	27	(147)

	As at 1 January 2019 RM'000	Recognised in profit or loss RM'000 (Note 22)	As at 31 December 2019 RM'000
Deferred tax asset:			
Property, plant and equipment	6	(6)	-
Deferred tax liability:			
Property, plant and equipment	(153)	(30)	(183)
	(147)	(36)	(183)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. DEFERRED TAX ASSET/(LIABILITIES)(CONTINUED)

Deferred tax relates to the following: (continued)

	As at 1 January 2020 RM'000	Recognised in profit or loss RM'000 (Note 22)	As at 31 December 2020 RM'000
Deferred tax liability:			
Property, plant and equipment	(183)	(4)	(187)

8. GOODWILL

	As at 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
At the beginning /end of financial year	118	118	118	118

Impairment of goodwill

Management reviews the business performance based on the type of services of the strategic business units which represent its reportable operating segments. For the purpose of impairment testing, goodwill acquired through business combinations is allocated to the Group's CGU which is also reportable operating segment, which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The carrying amount of goodwill allocated to the CGU of the Group is as follow:

	As at 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Others	118	118	118	118

Goodwill is assessed at each reporting date regardless of any indication of impairment by comparing the carrying amount with the recoverable amount of each CGU.

The recoverable amount of the CGU has been determined based on value-in-use calculations using cash flows projection from financial budgets and forecasts approved by management covering a five-year period including near-term impact from Covid-19. The economic uncertainties from Covid-19 pandemic may result in higher level of estimation uncertainty to the inputs and assumptions used in the value-in-use calculation. Cash flows that are projected based on those inputs or assumptions may have a significant effect on the Group's financial position and results if the actual cash flows are less than expected.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. GOODWILL (CONTINUED)

The key assumptions used for value-in-use calculation are:

(i) The weighted average growth rate using an estimated growth rate of 5% (2019, 2018 and 2017:5%); and
(ii) The discount rate of 10% (2019, 2018 and 2017:10%) applied to the cash flows projection is pre-tax and reflects management's estimate of the risk specific to the CGU at the date of assessment.

Based on the sensitivity analysis performed, the Group is of the opinion that there are no reasonable possible changes in key assumptions which would cause the carrying value of the CGU to exceed its recoverable amounts.

9. OTHER INVESTMENTS

	As at 31 December 2020 RM'000
Financial asset designated at FVPL	
At fair value:	
Investment securities	1,818

10. TRADE AND OTHER RECEIVABLES

		As at 31 December			
	Note	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Trade					
Trade receivables	(a)				
- Third parties		40,665	35,845	52,103	44,249
- Related party		268	129	-	-
Retention sums	(a)	15,706	24,441	19,609	28,440
		56,639	60,415	71,712	72,689
Non-trade					
Other receivables		463	378	292	77
Deposits		419	336	445	619
Prepayments		347	12	20	526
Amount owing by a related party	(b)	1,823	830	-	-
		3,052	1,556	757	1,222
Total trade and other receivables		59,691	61,971	72,469	73,911

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables

Trade receivables are non-interest bearing and normal credit term offered by the Group range from 30 days to 90 days from the date of invoices. Other credit terms are assessed and approved on a case by case basis.

(b) Amount owing by a related party

Amount owing by a related party are unsecured, non-interest bearing, repayable on demand and is expected to be settled in cash.

The information about the credit exposures are disclosed in Note 25(b)(i).

11. CONTRACT ASSETS/(LIABILITIES)

	As at 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Contract assets relating to construction service contracts	17,113	17,768	16,724	29,677
Contract liabilities relating to construction service contracts	(11,382)	(10,133)	(10,582)	(2,960)

(a) Significant changes in contract balances

	FYE 31 December							
	2017		2018		2019		2020	
	Contract assets Increase/ (decrease) RM'000	Contract liabilities (Increase)/ decrease RM'000	Contract assets Increase/ (decrease) RM'000	Contract liabilities (Increase)/ decrease RM'000	Contract assets Increase/ (decrease) RM'000	Contract liabilities (Increase)/ decrease RM'000	Contract assets Increase/ (decrease) RM'000	Contract liabilities (Increase)/ decrease RM'000
Revenue recognised that was included in contract liabilities at the beginning of the financial year	-	20,245	-	11,382	-	10,133	-	10,582
Increases due to cash received, excluding amounts recognised as revenue during the financial year	-	(11,382)	-	(10,133)	-	(10,582)	-	(2,960)
Increases as a result of changes in the measure of progress	13,548	-	16,606	-	10,832	-	28,126	-
Transfers from contract assets recognised at the beginning of the financial year to receivables	(6,767)	-	(15,951)	-	(11,876)	-	(15,173)	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. CONTRACT ASSETS/(LIABILITIES) (CONTINUED)

(b) Revenue recognised in relation to contract balances

	FYE 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Revenue recognised that was included in contract liabilities at the beginning of the financial year	20,245	11,382	10,133	10,582

Revenue recognised that was included in the contract liabilities balances at the beginning of the financial year represented primarily revenue from construction contracts when percentage of completion increases.

12. CASH AND SHORT-TERM DEPOSITS

	As at 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Cash and bank balances	13,404	14,072	19,279	25,935
Short-term deposits	914	938	964	1,219
	14,318	15,010	20,243	27,154

Included in the deposits placed with licensed bank of the Group, RM1,219,437 (2019: RM895,737, 2018: RM871,803 and 2017: RM849,620) is pledged for banking facilities granted to the Group as disclosed in Note 15.

At the end of the reporting year, short-term deposit of NIL (2019: RM68,526, 2018: RM66,465 and 2017: RM64,394) is held in trust by a director.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. INVESTED EQUITY/SHARE CAPITAL

(a) Invested equity

	Number of ordinary shares				Amount			
	2017	2018	2019	2020	2017	2018	2019	2020
	Unit'000	Unit'000	Unit'000	Unit'000	RM'000	RM'000	RM'000	RM'000
At the beginning of the financial year	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Adjustment pursuant to merger accounting	-	-	-	(1,500)	-	-	-	(1,500)
At the end of the financial year	1,500	1,500	1,500	-	1,500	1,500	1,500	-

(b) Share capital

	Number of ordinary shares				Amount			
	2017	2018	2019	2020	2017	2018	2019	2020
	Unit'000	Unit'000	Unit'000	Unit'000	RM'000	RM'000	RM'000	RM'000
At the beginning of the financial year /date of incorporation	-	-	-	*	-	-	-	*
Issuance of ordinary shares	-	-	-	*	-	-	-	*
Issuance of shares pursuant to acquisition of a subsidiary	-	-	-	148,321	-	-	-	41,530
At the end of the financial year/period	-	-	-	148,321	-	-	-	41,530

* *Less than RM1.000*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. INVESTED EQUITY/SHARE CAPITAL (CONTINUED)

For the purpose of this report, the total number of shares as at 31 December 2017, 31 December 2018 and 31 December 2019 represent the aggregate number of issued shares of all entities within the Group. The share capital of Haily Machinery Sdn. Bhd. had been eliminated against the investment in subsidiary of Haily Construction Sdn. Bhd.. Pursuant to the Pre-Initial Public Offering reorganisation, the total number of shares as at 31 December 2017, 31 December 2018 and 31 December 2019 represents the issued share capital of Haily Construction Sdn. Bhd..

(a) Incorporation

The Company issued 1 ordinary share at RM1 per ordinary share to Haily Holdings Sdn. Bhd. on the date of incorporation for a total cash consideration of RM1.

(b) Issuance of ordinary shares

On 24 July 2020, the Company issued 99 new ordinary shares at RM1 per ordinary share for a total cash consideration of RM99.

(c) Issuance of shares pursuant to acquisition of a subsidiary

On 24 August 2020, the Company issued 148,320,600 new ordinary shares to Haily Holdings Sdn. Bhd. for the acquisition of entire issued share capital of Haily Construction Sdn. Bhd. pursuant to the conditional share sale agreement dated 24 July 2020.

The new ordinary shares issued during the financial year rank equally in all respects with the existing ordinary shares of the Company.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. REORGANISATION RESERVE

The reorganisation reserve arose from the differences between the carrying value of the investment and the nominal value of the shares of the subsidiary upon consolidation under the merger accounting principles.

15. LOANS AND BORROWINGS

		As at 31 December			
		2017	2018	2019	2020
	Note	RM'000	RM'000	RM'000	RM'000
Non-current:					
Term loans	(a)	2,125	1,891	-	-
Finance lease liabilities	(b)	304	238	-	-
Lease liabilities	(c)	-	-	1,250	1,102
Total non-current		2,429	2,129	1,250	1,102
Current:					
Term loans	(a)	235	235	-	-
Finance lease liabilities	(b)	394	395	-	-
Lease liabilities	(c)	-	-	665	848
Revolving credit	(d)	-	-	-	1,000
Bank overdraft	(e)	-	-	-	4,620
Total current		629	630	665	6,468
Total loans and borrowings:					
Term loans	(a)	2,360	2,126	-	-
Finance lease liabilities	(b)	698	633	-	-
Lease liabilities	(c)	-	-	1,915	1,950
Revolving credit	(d)	-	-	-	1,000
Bank overdraft	(e)	-	-	-	4,620
		3,058	2,759	1,915	7,570

(a) Term loans

Term loan 1 of the Group of NIL (2019: NIL, 2018: RM457,424 and 2017: RM506,981) bears interest at bank base lending rate ("BLR") minus 2.20% per annum and is repayable by monthly instalments of RM4,140 over twenty years commencing from the day of first drawdown and is secured and supported as follows:

(i) legal charge over the investment property of the Group as disclosed in Note 6;
(ii) joint and several guarantee by two of the directors of the Group; and
(iii) corporate guarantee by the related party, which is the holding company, namely Haily Holdings Sdn. Bhd..

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. LOANS AND BORROWINGS (CONTINUED)

(a) Term loans (continued)

Term loan 2 of the Group of NIL (2019: NIL, 2018: RM403,945 and 2017: RM449,110) bears interest at BLR minus 2.20% per annum and is repayable by monthly instalments of RM3,774 over twenty years commencing from the day of first drawdown and is secured and supported as follows:

(i) legal charge over the investment property of the Group as disclosed in Note 6;
(ii) joint and several guarantee by two of the directors of the Group; and
(iii) corporate guarantee by the related party, which is the holding company, namely Haily Holdings Sdn. Bhd..

Term loan 3 of the Group of NIL (2019: NIL, 2018: RM456,921 and 2017: RM506,478) bears interest at BLR minus 2.20% per annum and is repayable by monthly instalments of RM4,140 over twenty years commencing from the day of first drawdown and is secured and supported as follows:

(i) legal charge over the investment property of the Group as disclosed in Note 6;
(ii) joint and several guarantee by two of the directors of the Group; and
(iii) corporate guarantee by the related party, which is the holding company, namely Haily Holdings Sdn. Bhd..

Term loan 4 of the Group of NIL (2019: NIL, 2018: RM403,968 and 2017: RM449,013) bears interest at BLR minus 2.20% per annum and is repayable by monthly instalments of RM3,764 over twenty years commencing from the day of first drawdown and is secured and supported as follows:

(i) legal charge over the investment property of the Group as disclosed in Note 6;
(ii) joint and several guarantee by two of the directors of the Group; and
(iii) corporate guarantee by the related party, which is the holding company, namely Haily Holdings Sdn. Bhd..

Term loan 5 of the Group of NIL (2019: NIL, 2018: RM403,920 and 2017: RM448,965) bears interest at BLR minus 2.20% per annum and is repayable by monthly instalments of RM3,764 over twenty years commencing from the day of first drawdown and is secured and supported as follows:

(i) legal charge over the investment property of the Group as disclosed in Note 6;
(ii) joint and several guarantee by two of the directors of the Group; and
(iii) corporate guarantee by the related party, which is the holding company, namely Haily Holdings Sdn. Bhd..

(b) Finance lease liabilities

Certain motor vehicles of the Group as disclosed in Note 5 are pledged for finance leases. Such leases do not have terms for renewal which would give the Group an option to purchase at nominal values at the end of the lease term. The effective interest rate implicit in the leases are NIL (2019: NIL, 2018: 3.60% to 5.27% and 2017: 3.60% to 6.42%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. LOANS AND BORROWINGS (CONTINUED)

(b) Finance lease liabilities (continued)

Future minimum lease payments under finance lease together with the present value of net minimum lease payments are as follows:

	As at 31 December	
	2017	2018
	RM'000	RM'000
Minimum lease payments:		
- Not later than one year	417	415
- Later than one year and not later than five years	311	246
	728	661
Less: Future finance charges	(30)	(28)
Present value of minimum lease payments	698	633
Present value of minimum lease payments:		
- Not later than one year	394	395
- Later than one year and not later than five years	304	238
	698	633
Less: Amount due within twelve months	(394)	(395)
Amount due after twelve months	304	238

Upon adoption of MFRS 16, the maturity analysis and present value of finance lease commitment is included within lease liabilities in Notes 15(c) and 25(b)(ii).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. LOANS AND BORROWINGS (CONTINUED)

(c) Lease liabilities

Future minimum lease payments together with the present value of net minimum lease payments are as follows:

	As at 31 December	
	2019 RM'000	2020 RM'000
Minimum lease payments:		
- Not later than one year	736	917
- Later than one year and not later than five years	1,326	1,151
	2,062	2,068
Less: Future finance charges	(147)	(118)
Present value of minimum lease payments	1,915	1,950
Present value of minimum lease payments:		
- Not later than one year	665	848
- Later than one year and not later than five years	1,250	1,102
	1,915	1,950
Less: Amount due within twelve months	(665)	(848)
Amount due after twelve months	1,250	1,102

The maturity analysis of lease liabilities is disclosed in Note 25(b)(ii).

(d) Revolving credit

Revolving credit bears interest at 2.75% (2019, 2018 and 2017: NIL) per annum over the cost funding rate and is secured and supported as follows:
(i) legal charge over the fixed deposits as disclosed in Note 12;
(ii) joint and several guarantee by certain directors of the Group and a director of the holding company; and
(iii) guarantee by the investment securities as disclosed in Note 9.

(e) Bank overdraft

Bank overdraft bears interest at 0.25% (2019, 2018 and 2017: NIL) per annum over the BLR and is secured and supported as follows:
(i) legal charge over the fixed deposits as disclosed in Note 12;
(ii) joint and several guarantee by certain directors of the Group and a director of the holding company; and
(iii) guarantee by the investment securities as disclosed in Note 9.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. TRADE AND OTHER PAYABLES

	Note	As at 31 December 2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Trade					
Trade payables	(a)				
- Third parties		26,018	35,911	40,781	52,298
- Related parties		830	435	-	-
Retention sums		10,926	12,709	12,300	15,567
Trade accruals		10,456	100	1,085	1,903
		48,230	49,155	54,166	69,768
Non-trade					
Other payables		134	117	239	274
Accruals		1,599	2,748	3,074	3,008
Deposit received		45	45	-	-
		1,778	2,910	3,313	3,282
Total trade and other payables		50,008	52,065	57,479	73,050

(a) Trade payables

Trade payables are non-interest bearing and the normally trade credit term granted to the Group ranges from 30 days to 90 days.

For explanations on the Group's liquidity risk management processes, refer to Note 25(b)(ii).

17. REVENUE

	FYE 31 December 2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Over time:				
Revenue from contract customers:				
Construction contracts	121,801	173,778	157,917	166,132
Revenue from other source:				
Hiring of motor vehicles and heavy equipments	31	9	1	-
	121,832	173,787	157,918	166,132

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. OTHER INCOME

	FYE 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Gain on disposal of property, plant and equipment	174	1	44	7
Interest income	341	353	207	150
Rental income	169	211	188	-
Government grants	-	-	-	255
Covid-19 related rent concession income	-	-	-	3
Miscellaneous	-	44	268	44
	684	609	707	459

19. FINANCE COSTS

	FYE 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Interest expense on:				
- Finance lease liabilities	67	33	-	-
- Lease liabilities	-	-	90	92
- Revolving credit	-	-	-	25
- Invoice financing	-	-	-	6
- Bank overdraft	-	-	-	89
	67	33	90	212

20. PROFIT BEFORE TAX

Other than disclosed elsewhere in the financial statements, the following items have been charged in arriving at profit before tax:

		FYE 31 December			
	Note	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Auditors' remuneration:					
- current year		44	55	55	65
- prior year		-	5	-	-
Depreciation of property, plant equipment	5	974	960	1,197	1,369
Property, plant and equipment written off		15	1	-	-
Depreciation of investment properties	6	129	144	132	-
Loss on disposal of investment properties		-	-	43	-
Employee benefits expense	21	8,073	10,803	12,173	12,088
Rental expenses on:					
- Hostel		192	96	96	-
- Office		13	133	9	-
- Site hostel		35	48	37	31
- Site store		42	9	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. EMPLOYEE BENEFITS EXPENSE

	FYE 31 December			
	2017 RM'000	**2018 RM'000**	**2019 RM'000**	**2020 RM'000**
Salaries, allowances and bonuses	7,304	9,915	11,179	11,023
Defined contribution plans	572	671	825	875
Other staff related expenses	197	217	169	190
	8,073	10,803	12,173	12,088
Included in employee benefits expense are:				
- Directors' fees	-	1,590	1,060	1,181
- Directors' remuneration	591	620	1,134	1,223
- Directors' defined contribution plans	71	74	136	146
- Directors' other emoluments	3	4	4	4
	665	2,288	2,334	2,554

22. INCOME TAX EXPENSE

The major components of income tax expense for the financial years ended 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020 are as follow:

	FYE 31 December			
	2017 RM'000	**2018 RM'000**	**2019 RM'000**	**2020 RM'000**
Statements of comprehensive income				
Current income tax:				
- Current income tax charge	3,985	3,023	2,989	3,984
- Adjustment in respect of prior years	*	458	19	71
	3,985	3,481	3,008	4,055
Deferred tax: (Note 7)				
- Origination of temporary differences	30	57	18	5
- Adjustment in respect of prior year	-	(84)	18	(1)
	30	(27)	36	4
Income tax expense recognised in profit or loss	4,015	3,454	3,044	4,059

* *Less than RM1,000*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. INCOME TAX EXPENSE (CONTINUED)

Domestic income tax is calculated at the Malaysian statutory income tax rate of 24% (2019, 2018 and 2017: 24%) of the estimated assessable profit for the financial year.

The income tax rate applicable to small and medium scale enterprise ("SME") incorporated in Malaysia with paid-up capital of RM2.50 million and below and annual sales less than RM50 million (2019, 2018 and 2017: NIL) is subject to the statutory tax rate of 17% (2019: 17%, 2018 and 2017: 18%) of chargeable income of up to RM600,000 (2019, 2018 and 2017: RM500,000). For chargeable income excess of RM600,000 (2019, 2018 and 2017: RM500,000), statutory tax rate of 24% (2019, 2018 and 2017: 24%) is still applicable.

The reconciliations from the tax amount at the statutory income tax rate to the Group's tax expense are as follows:

	FYE 31 December			
	2017 **RM'000**	**2018** **RM'000**	**2019** **RM'000**	**2020** **RM'000**
Profit before tax	16,606	11,941	11,930	14,503
Tax at Malaysian statutory income tax rate of 24%	3,985	2,866	2,863	3,481
SME tax savings	(60)	(58)	(69)	(19)
Adjustments:				
- Income not subject to tax	(433)	(8)	(8)	(53)
- Non-deductible expenses	523	280	221	580
- Adjustment in respect of current income tax of prior years	*	458	19	71
- Adjustment in respect of deferred tax of prior year	-	(84)	18	(1)
Income tax expense	4,015	3,454	3,044	4,059

* *Less than RM1,000*

23. EARNINGS PER SHARE

Basic earnings per ordinary share and diluted earnings per ordinary share

Basic earnings per ordinary share are based on the profit for the financial year attributable to owners of the Group and the weighted average number of ordinary shares outstanding during the financial years.

Diluted earnings per ordinary share are based on the profit for the financial year attributable to owners of the Group and the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. EARNINGS PER SHARE (CONTINUED)

The basic and diluted earnings per ordinary share are computed as follow:

	FYE 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Profit attributable to owners of the Group	12,549	8,445	8,856	10,444
Weighted average number of ordinary shares for basic and diluted earnings per share^	1,500	1,500	1,500	148,321
Basic and diluted earnings per share (RM)	8.37	5.63	5.90	0.07

^ *For the purpose of calculating the earnings per ordinary shares for the financial years ended 31 December 2017, 31 December 2018 and 31 December 2019, the weighted average number of ordinary shares is the aggregate share capital of the combining entities constituting the Group.*

24. DIVIDENDS

	FYE 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Recognised during the financial year:				
Dividends on ordinary shares:				
- Single-tier interim dividend for the financial year ended 31 December 2020: RM1.67 per ordinary share, paid on 1 April 2020	-	-	-	2,500
- Single-tier interim dividend for the financial year ended 31 December 2019: RM4.00 per ordinary share, paid on 20 December 2019	-	-	6,000	-
- Single-tier interim dividend for the financial year ended 31 December 2018: RM3.50 per ordinary share, paid on 18 December 2018	-	5,250	-	-
- Single-tier interim dividend for the financial year ended 31 December 2017: RM6.67 per ordinary share, paid on 27 December 2017	10,005	-	-	-
	10,005	5,250	6,000	2,500

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The following table analyses the financial instruments in the statements of financial position by the classes of financial instruments to which they are assigned:
(i) Amortised cost
(ii) FVPL

	Carrying amount RM'000	Amortised cost RM'000
At 31 December 2017		
Financial assets		
Trade and other receivables, less prepayments and Goods and Services Tax ("GST") receivable	59,228	59,228
Cash and short-term deposits	14,318	14,318
	73,546	73,546
Financial liabilities		
Loans and borrowings	(3,058)	(3,058)
Trade and other payables, less GST payable	(49,985)	(49,985)
	(53,043)	(53,043)
At 31 December 2018		
Financial assets		
Trade and other receivables, less prepayments and GST receivable	61,848	61,848
Cash and short-term deposits	15,010	15,010
	76,858	76,858
Financial liabilities		
Loans and borrowings	(2,759)	(2,759)
Trade and other payables	(52,065)	(52,065)
	(54,824)	(54,824)
At 31 December 2019		
Financial assets		
Trade and other receivables, less prepayments	72,449	72,449
Cash and short-term deposits	20,243	20,243
	92,692	92,692
Financial liabilities		
Loans and borrowings	(1,915)	(1,915)
Trade and other payables	(57,479)	(57,479)
	(59,394)	(59,394)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(a) Categories of financial instruments (continued)

The following table analyses the financial instruments in the statements of financial position by the classes of financial instruments to which they are assigned: (continued)

	Carrying amount RM'000	Amortised cost RM'000	FVPL RM'000
At 31 December 2020			
Financial assets			
Other investments	1,818	-	1,818
Trade and other receivables, less prepayments	73,385	73,385	-
Cash and short-term deposits	27,154	27,154	-
	102,357	100,539	1,818
Financial liabilities			
Loans and borrowings	(7,570)	(7,570)	-
Trade and other payables	(73,050)	(73,050)	-
	(80,620)	(80,620)	-

(b) Financial risk management

The Group's activities are exposed to a variety of financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk and interest rate risk. The Group's overall financial risk management objective is to optimise value for its shareholders. The Group does not trade in financial instruments.

The Board of Directors reviews and agrees to policies and procedures for the management of these risks, which are executed by the Company's senior management.

(i) Credit risk

Credit risk is the risk of financial loss to the Group that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions and other financial instruments. The Group has a credit policy in place and the exposure to credit risk is managed through the application of credit approvals, credit limits and monitoring procedures.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets

As at the end of the reporting period, the maximum exposure to credit risk arising from trade receivables and contract assets is represented by the carrying amounts in the statements of financial position.

The carrying amounts of trade receivables and contract assets are not secured by any collateral or supported by any other credit enhancements. In determining the recoverability of these receivables, the Group considers any change in the credit quality of the receivables from the date the credit was initially granted up to the reporting date. The Group has adopted a policy of dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

Credit risk concentration profile
At the end of the reporting period, the Group has a significant concentration of credit risk in the form of eight (8) (2019: five (5), 2018: seven (7) and 2017: five (5)) trade receivables, representing approximately 95.3% (2019: 94.9%, 2018: 88.3% and 2017: 93.0%) of the Group's total trade receivables.

The Group applies the simplified approach to providing for impairment losses prescribed by MFRS 9 *Financial Instruments*, which permits the use of the lifetime expected loss provision for all trade receivables and contract assets. To measure the impairment losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The impairment losses also incorporate forward looking information.

The information about the credit risk exposure on the Group's trade receivables and contract assets are as follows:

			Trade receivables						
	Contract assets	Retention sums	Current	1 to 30 days past due	31 to 60 days past due	61 to 90 days past due	91 to 120 days past due	> 120 days past due	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
At 31 December 2017									
Gross carrying amount at default	17,113	15,706	24,562	12,771	501	130	1	2,968	40,933
Impairment losses	-	-	-	-	-	-	-	-	-
Net balances	17,113	15,706	24,562	12,771	501	130	1	2,968	40,933

HAILY GROUP BERHAD
Accountants' Report

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Trade receivables and contract assets (continued)

The information about the credit risk exposure on the Group's trade receivables and contract assets are as follows: (continued)

			← Trade receivables					→	
	Contract assets RM'000	Retention sums RM'000	Current RM'000	1 to 30 days past due RM'000	31 to 60 days past due RM'000	61 to 90 days past due RM'000	91 to 120 days past due RM'000	> 120 days past due RM'000	Total RM'000
At 31 December 2018									
Gross carrying amount at default	17,768	24,441	22,921	6,942	1,037	3,775	604	695	35,974
Impairment losses	-	-	-	-	-	-	-	-	-
Net balances	17,768	24,441	22,921	6,942	1,037	3,775	604	695	35,974
At 31 December 2019									
Gross carrying amount at default	16,724	19,609	27,031	11,034	4,347	2,200	1,426	6,065	52,103
Impairment losses	-	-	-	-	-	-	-	-	-
Net balances	16,724	19,609	27,031	11,034	4,347	2,200	1,426	6,065	52,103
At 31 December 2020									
Gross carrying amount at default	29,677	28,440	18,651	6,150	2,834	1,836	2,354	12,424	44,249
Impairment losses	-	-	-	-	-	-	-	-	-
Net balances	29,677	28,440	18,651	6,150	2,834	1,836	2,354	12,424	44,249

Other receivables and other financial assets

For other receivables and other financial assets (including investment securtities and cash and cash equivalents), the Group minimises credit risk by dealing exclusively with high credit rating counterparties. At the reporting date, the Group's maximum exposure to credit risk arising from other receivables and other financial assets is represented by the carrying amount of each class of financial assets recognised in the statements of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Other receivables and other financial assets (continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- internal credit rating
- external credit rating (as far as available)
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations
- actual or expected significant changes in the operating results of the borrower
- significant increases in credit risk on other financial instruments of the same borrower
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 90 days past due in making a contractual payment.

Intercompany loans between entities within the Group are repayable on demand. For loans that are repayable on demand, impairment losses are assessed based on the assumption that repayment of the loan is demanded at the reporting date. If the borrower does not have sufficient highly liquid resources when the loan is demanded, the Group will consider the expected manner of recovery and recovery period of the intercompany loan.

As at the end of report date, the Group did not recognise any loss allowance for impairment for other receivables and other financial assets. Refer to Note 3.9(a) for the Group's other accounting policies for impairment of financial assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(i) Credit risk (continued)

Financial guarantee contracts

The Group is exposed to credit risk in relation to financial guarantees given to customers and banks in respect of banking facilities granted to a related party and its customers. The amount relating to the financial guarantees provided by the Group is as follows:

	As at 31 December			
	2017	**2018**	**2019**	**2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Corporate guarantees given to:				
- Customers to secure the performance of the Group's obligation for contract works	10,658	12,593	16,610	15,478
- Bank for banking facilities granted to a related party	6,166	6,166	6,166	-
Performance and tender guarantees granted to:				
- Customers	84	466	1,783	3,022
	16,908	19,225	24,559	18,500

The maximum exposure to credit risks amounts to RM18,499,909 (2019: RM24,559,499, 2018: RM19,224,800 and 2017: RM16,907,500) representing the maximum amount the Group could pay if the guarantee is called on as disclosed in Note 25(b)(ii).

The Group monitors the result of the related party and its repayment on an on-going basis. As at the reporting date, there was no indication that the related party would default on repayment.

The financial guarantees have not been recognised since the fair value on initial recognition was not material.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations when they fall due. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities between financial assets and liabilities. The Group's exposure to liquidity risk arises principally from trade and other payables, loans and borrowings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(ii) Liquidity risk (continued)

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by facilities. The Group maintains sufficient liquidity and available funds to meet daily cash needs, while maintaining controls and security over cash movements. The Group uses a series of processes to obtain maximum benefits from its flow of funds, such that they are efficiently managed to maximise income from investment and minimise cost on borrowed funds. The Group's finance department also ensures that there are sufficient unutilised stand-by facilities, funding and liquid assets available to meet both short-term and long-term funding requirements.

Maturity analysis
The maturity analysis of the Group's financial liabilities by their relevant maturities at the reporting date are based on contractual undiscounted repayment obligations are as follows:

		← Contractual cash flows →			
	Carrying amount RM'000	On demand or within 1 year RM'000	Between 1 and 5 years RM'000	More than 5 years RM'000	Total RM'000
At 31 December 2017					
Trade and other payables, less GST payable	49,985	49,985	-	-	49,985
Finance lease liabilities	698	417	311	-	728
Term loans	2,360	235	940	1,185	2,360
Financial guarantee contracts	-	16,908	-	-	16,908
	53,043	67,545	1,251	1,185	69,981
At 31 December 2018					
Trade and other payables	52,065	52,065	-	-	52,065
Finance lease liabilities	633	415	246	-	661
Term loans	2,126	235	940	951	2,126
Financial guarantee contracts	-	19,225	-	-	19,225
	54,824	71,940	1,186	951	74,077

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(ii) Liquidity risk (continued)

Maturity analysis (continued)
The maturity analysis of the Group's financial liabilities by their relevant maturities at the reporting date are based on contractual undiscounted repayment obligations are as follows: (continued)

		← Contractual cash flows →			
	Carrying amount RM'000	On demand or within 1 year RM'000	Between 1 and 5 years RM'000	More than 5 years RM'000	Total RM'000
At 31 December 2019					
Trade and other payables	57,479	57,479	-	-	57,479
Lease liabilities	1,915	736	1,326	-	2,062
Financial guarantee contracts	-	24,559	-	-	24,559
	59,394	82,774	1,326	-	84,100
At 31 December 2020					
Trade and other payables	73,050	73,050	-	-	73,050
Lease liabilities	1,950	917	1,151	-	2,068
Revolving credit	1,000	1,000	-	-	1,000
Bank overdraft	4,620	4,620	-	-	4,620
Financial guarantee contracts	-	18,500	-	-	18,500
	80,620	98,087	1,151	-	99,238

(iii) Interest rate risk

Interest rate risk is the risk of fluctuation in fair value or future cash flows of the Group's financial instruments as a result of changes in market interest rates. The Group's exposure to interest rate risk arises primarily from its long-term loans and borrowings with floating interest rates.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management (continued)

(iii) Interest rate risk (continued)

Sensitivity analysis for interest rate risk
The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant on the Group's total equity and profit for the financial years.

	Carrying amount RM'000	Change in basis points	Effect on equity and profit for the financial year RM'000
31 December 2017			
Term loans	2,360	+50	(9)
		-50	9
31 December 2018			
Term loans	2,126	+50	(8)
		-50	8
31 December 2020			
Revolving credit	1,000	+50	(4)
		-50	4
Bank overdraft	4,620	+50	(18)
		-50	18

(c) Fair value measurement

The carrying amounts of cash and cash equivalents, short-term receivables and payables and short-term borrowings are reasonably approximate to their fair value due to relatively short-term nature of these financial instruments.

There have been no transfers between Level 1, Level 2 and Level 3 during the financial year.

It is not practical to determine the fair value of finance lease liabilities which are at fixed rate due to lack of market information of comparable instruments with similar characteristic and risk profile.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value measurement (continued)

The following table provides the fair value measurement hierarchy of the Group's financial instruments:

		Fair value of financial instruments not carried at fair value			
	Carrying amount RM'000	Fair value Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
At 31 December 2017					
Financial liability					
Non-current					
Term loans	2,125	-	-	1,452	1,452
At 31 December 2018					
Financial liability					
Non-current					
Term loans	1,891	-	-	1,331	1,331

Level 3 fair value

Fair value of financial instruments not carried at fair value
The fair value of liability component of term loans is calculated based on the present value of future principal and interest cash flows, discounted at the market interest rate of similar liabilities.

26. COMMITMENTS

(a) Capital commitments

The Group has made commitments for the following capital expenditures:

	As at 31 December 2017 RM'000	2018 RM'000	2019 RM'000
Motor vehicles	-	-	270

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. COMMITMENTS (CONTINUED)

(b) Operating lease commitments - as lessee

The Group leases a number of buildings and equipment under operating leases for lease term of one (1) year (2019: one (1) year, 2018: one (1) to five (5) years and 2017: two (2) to three (3) years), with option to renew the lease at the end of the lease term.

Future minimum rental payable under the non-cancellable operating lease at the reporting date is as follows:

	As at 31 December			
	2017 RM'000	**2018 RM'000**	**2019 RM'000**	**2020 RM'000**
- Not later than one year	28	369	13	22
- More than one year and not later than five years	14	580	-	-
	42	949	13	22

(c) Operating lease commitments - as lessor

The Group leases several of its investment properties which have remaining lease term of NIL (2019: NIL, 2018: two (2) years and 2017: one (1) to two (2) years).

Future minimum rental receivable under the non-cancellable operating lease at the reporting date is as follows:

	As at 31 December	
	2017 RM'000	**2018 RM'000**
- Not later than one year	127	194
- More than one year and not later than five years	49	68
	176	262

27. RELATED PARTIES

(a) Identification of related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operational decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals or other entities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. RELATED PARTIES (CONTINUED)

(a) Identification of related parties (continued)

Related parties of the Group include:
(i) Company's holding company;
(ii) Entity in which certain directors have interests;
(iii) Entity in which a director has interests;
(iv) Entity owned by a person connected to a director; and
(v) Key management personnel of the Group, comprise persons (including directors) having the authority and responsibility for planning, directing and controlling the activities or indirectly.

(b) Significant related parties transactions

Significant related parties transactions other than disclosed elsewhere in the financial statements are as follows:

	FYE 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Construction services				
- Entity in which certain directors have interests	2,284	2,605	-	-
Disposal of investment properties				
- Entity in which certain directors have interests	-	-	5,203	-
Purchase of goods/services				
- Entities in which a director has interests	2,841	3,434	1,001	-
- Entity owned by a person connected to a director	1,055	2,159	935	-
Rental expenses				
- Entity in which certain directors have interests	192	216	336	-
- Holding company	-	-	-	240
Payment on behalf				
- Entity in which certain directors have interests	2,051	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. RELATED PARTIES (CONTINUED)

(c) Compensation of key management personnel

	FYE 31 December			
	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Salaries, allowances and bonuses	795	2,423	2,632	2,899
Defined contribution plans	94	100	183	201
Other staff related expenses	4	5	5	5
	893	2,528	2,820	3,105

Significant outstanding balances with related parties at the end of the reporting period are as disclosed in Notes 10 and 16.

The Group provides secured corporate guarantees to banks of NIL (2019, 2018 and 2017: RM6,166,000) in respect of banking facilities granted to the related party, which is the holding company, namely Haily Holdings Sdn. Bhd. as disclosed in Note 25(b)(i).

28. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximise shareholders value. The Group manages its capital structure and make adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies and processes during the financial years ended 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020.

The Group monitors capital using gearing ratio. The gearing ratio is calculated as total debts divided by total equity. The gearing ratio as at 31 December 2017, 31 December 2018, 31 December 2019 and 31 December 2020 are as follows:

		As at 31 December			
	Note	2017 RM'000	2018 RM'000	2019 RM'000	2020 RM'000
Loans and borrowings/total debts	15	3,058	2,759	1,915	7,570
Total equity		38,105	41,342	44,030	51,974
Gearing ratio (times)		0.08	0.07	0.04	0.15

There were no changes in the Group's approach to capital management during the financial years under review.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. CAPITAL MANAGEMENT (CONTINUED)

The Group is required to comply with externally imposed capital requirements on leverage ratio and maintain certain net worth in respect of its bank borrowings. The Group has complied with those capital requirements.

29. SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

(a) Acquisition of Haily Construction Sdn. Bhd.

The Company had on 24 July 2020, entered into a conditional share sale agreement with Haily Holdings Sdn. Bhd. to acquire the entire issued share capital of Haily Construction Sdn. Bhd. comprising 1,500,000 ordinary shares for a total purchase consideration of RM41,529,768. The acquisition of Haily Construction Sdn. Bhd. is to be wholly satisfied by the issuance of 148,320,600 new shares of the Company at an issue price of RM0.28 per share. The acquisition of Haily Construction Sdn. Bhd. was completed on 24 August 2020.

(b) Covid-19 pandemic

On 11 March 2020, the World Health Organisation declared the Covid-19 outbreak as a pandemic in recognition of its rapid spread across the globe. On 16 March 2020, the Malaysian Government has imposed several levels of 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, social distancing and other precautionary measures imposed in various countries.

The Group has performed assessments on the overall impact of the situation on the Group's operations and financial implications, including the recoverability of the carrying amount of assets and subsequent measurement of assets and liabilities, and concluded that there is no material adverse effect on the financial statements for the financial year ended 31 December 2020.

Given the fluidity of the situation, the Group is unable to reasonably estimate the complete financial impacts of Covid-19 pandemic for the financial year ending 31 December 2021 to be disclosed in the financial statements as impact assessment of the Covid-19 pandemic is a continuing process. The Group will continuously monitor any material changes to future economic conditions that will affect the Group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. SEGMENT INFORMATION

The Group prepared the following segment information in accordance with MFRS 8 *Operating Segments* based on the internal reports of the Group's strategic business units which are regularly reviewed by the directors for the purpose of making decisions about resource allocation and performance assessment.

The two reportable operating segments are as follows:

Segments	**Product and services**
Building construction	Building construction of residential and non-residential buildings
Others	Civil engineering construction works and rental of machinery and equipment

Inter-segment pricing is determined on negotiated basis.

	Building construction RM'000	**Others RM'000**	**Adjustment and eliminations RM'000**	**Total RM'000**
Financial year ended 31 December 2017				
Revenue:				
Revenue from external customers	120,675	1,157	-	121,832
Inter-segment revenue	-	1,646	(1,646)	-
	120,675	2,803	(1,646)	121,832
Segment profit	22,996	523	-	23,519
Other income				684
Unallocated expenses				(7,530)
Finance costs				(67)
Income tax expense				(4,015)
Profit for the financial year				12,591
Results:				
Included in the measure of segment profit are:				
Employee benefits expense				8,073
Depreciation of property, plant and equipment				974
Depreciation of investment properties				129

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Accountants' Report

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. SEGMENT INFORMATION (CONTINUED)

	Building construction RM'000	Others RM'000	Adjustment and eliminations RM'000	Total RM'000
Financial year ended 31 December 2018				
Revenue:				
Revenue from external customers	172,309	1,478	-	173,787
Inter-segment revenue	-	1,687	(1,687)	-
	172,309	3,165	(1,687)	173,787
Segment profit	22,107	61	-	22,168
Other income				609
Unallocated expenses				(10,803)
Finance costs				(33)
Income tax expense				(3,454)
Profit for the financial year				8,487
Results:				
Included in the measure of segment profit are:				
Employee benefits expense				10,803
Depreciation of property, plant and equipment				960
Depreciation of investment properties				144

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. SEGMENT INFORMATION (CONTINUED)

	Building construction RM'000	Others RM'000	Adjustment and eliminations RM'000	Total RM'000
Financial year ended 31 December 2019				
Revenue:				
Revenue from external customers	156,675	1,243	-	157,918
Inter-segment revenue	-	1,927	(1,927)	-
	156,675	3,170	(1,927)	157,918
Segment profit	22,770	167	-	22,937
Other income				707
Unallocated expenses				(11,624)
Finance costs				(90)
Income tax expense				(3,044)
Profit for the financial year				8,886
Results:				
Included in the measure of segment profit are:				
Employee benefits expense				12,173
Depreciation of property, plant and equipment				1,197
Depreciation of investment properties				132

HAILY GROUP BERHAD
Accountants' Report

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. SEGMENT INFORMATION (CONTINUED)

	Building construction RM'000	Others RM'000	Adjustment and eliminations RM'000	Total RM'000
Financial year ended 31 December 2020				
Revenue:				
Revenue from external customers	163,875	2,257	-	166,132
Inter-segment revenue	-	1,561	(1,561)	-
	163,875	3,818	(1,561)	166,132
Segment profit	27,169	315	-	27,484
Other income				459
Unallocated expenses				(13,228)
Finance costs				(212)
Income tax expense				(4,059)
Profit for the financial year				10,444
Results:				
Included in the measure of segment profit are:				
Employee benefits expense				12,088
Depreciation of property, plant and equipment				1,369

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15 June 2021

The Board of Directors
Haily Group Berhad
Suite 5.11 & 5.12, 5th Floor, Menara TJB
No. 9, Jalan Syed Mohd Mufti
80000 Johor Bahru
Johor

Dear Sirs,

HAILY GROUP BERHAD AND ITS SUBSIDIARIES

REPORTING ACCOUNTANTS' REPORT ON THE COMPILATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2020 INCLUDED IN A PROSPECTUS

We have completed our assurance engagement to report on the compilation of the pro forma consolidated statements of financial position of Haily Group Berhad ("Haily" or the "Company") and its subsidiaries, namely Haily Construction Sdn. Bhd. and Haily Machinery Sdn. Bhd. ("Group") for which the directors of Haily are solely responsible. The pro forma consolidated statements of financial position consist of the pro forma consolidated statements of financial position as at 31 December 2020 together with the accompanying notes thereon, as set out in the accompanying statements, for which we have stamped for the purpose of identification. The applicable criteria on the basis of which the directors of Haily have compiled the pro forma consolidated statements of financial position are as described in Note 2 to the pro forma consolidated statements of financial position and in accordance with the requirements of the *Prospectus Guidelines – Equity* issued by the Securities Commission Malaysia ("Prospectus Guidelines") ("Applicable Criteria").

The pro forma consolidated statements of financial position of the Group has been compiled by the directors of Haily, for illustrative purposes only, for inclusion in the prospectus of Haily ("Prospectus") in connection with the initial public offering of the IPO Shares in conjunction with the listing of and quotation for the entire enlarged issued share capital of Haily on the ACE Market of Bursa Malaysia Securities Berhad comprising the Public Issue and the Offer for Sale ("IPO"), after making certain assumptions and such adjustments to show the effects on the consolidated financial position of the Group as at 31 December 2020 adjusted for the Public Issue, Offer for Sale and use of proceeds as described in Notes 1.2.1, 1.2.2 and 3.2.2 respectively.

As part of this process, information about the Group's pro forma consolidated statements of financial position has been extracted by the directors of Haily from the audited financial statements of the Group.

The audited financial statements of the Group for the financial year ended ("FYE") 31 December 2020 were reported by us to its member without any modifications.

Directors' Responsibility for the Pro Forma Consolidated Statements of Financial Position

The directors of Haily are responsible for compiling the pro forma consolidated statements of financial position based on the Applicable Criteria.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the *By-Laws (on Professional Ethics, Conduct and Practice)* issued by the Malaysian Institute of Accountants and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies *International Standard on Quality Control 1 (ISQC 1), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, on whether the pro forma consolidated statements of financial position has been compiled, in all material respects, by the directors of Haily based on the Applicable Criteria.

We conducted our engagement in accordance with *International Standard on Assurance Engagements (ISAE) 3420: Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the directors of Haily have compiled, in all material respects, the pro forma consolidated statements of financial position based on the Applicable Criteria.

For the purpose of this engagement, we are not responsible for updating or 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 the pro forma consolidated statements of financial position included in the Prospectus is solely to illustrate the impact of significant events or transactions on the unadjusted financial information of the Group as if the events had occurred or the transaction had been undertaken at an earlier date selected for illustrative purposes only. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions would have been as presented.

Reporting Accountants' Responsibilities (Continued)

A reasonable assurance engagement to report on whether the pro forma consolidated statements of financial position has been compiled, in all material respects, based on the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the directors of Haily in the compilation of the pro forma consolidated statements of financial position of the Group provide a reasonable basis for presenting the significant effects directly attributable to Listing Scheme as described in Note 1.2 to the pro forma consolidated statements of financial position, and to obtain sufficient appropriate evidence about whether:

(a) The pro forma consolidated statements of financial position of the Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma consolidated statements of financial position, based on the audited financial statements of the Group for the FYE 31 December 2020, and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Group in the preparation of its audited financial statements for the FYE 31 December 2020; and

(b) Each material adjustment made to the information used in the preparation of the pro forma consolidated statements of financial position of the Group is appropriate for the purpose of preparing the pro forma consolidated statements of financial position.

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 has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma consolidated statements of financial position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our opinion

In our opinion:

(a) the pro forma consolidated statements of financial position of the Group has been properly prepared on the basis and assumptions set out in the accompanying notes to the pro forma consolidated statements of financial position, based on the audited financial statements of the Group for the FYE 31 December 2020, and in a manner consistent with both the format of the financial statements and the accounting policies adopted by the Group in the preparation of its audited financial statements for the FYE 31 December 2020; and

(b) each material adjustment made to the information used in the preparation of the pro forma consolidated statements of financial position of the Group is appropriate for the purpose of preparing the pro forma consolidated statements of financial position.

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HAILY GROUP BERHAD AND ITS SUBSIDIARIES
Reporting Accountants' Report on the Compilation of the Pro Forma Consolidated Statements of Financial Position as at 31 December 2020 Included in a Prospectus

Other matter

This report has been prepared for inclusion in the Prospectus of Haily in connection with the IPO. As such, this report should not be used, circulated, quoted or otherwise referred to in any document or used for any other purpose without our prior written consent. Neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Yours faithfully,

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

Dato' Lock Peng Kuan
No. 02819/10/2022 J
Chartered Accountant

HAILY GROUP BERHAD AND ITS SUBSIDIARIES

PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

1. INTRODUCTION

The pro forma consolidated statements of financial position of Haily Group Berhad ("Haily" or the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") has been compiled by the directors of Haily, for illustrative purposes only, for inclusion in the prospectus of Haily in connection with the listing of and quotation for the entire enlarged issued share capital of Haily on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities").

1.1 In conjunction with the admission of Haily to the Official List and the listing of and quotation for its entire enlarged issued share capital of RM61,929,868 comprising 178,320,700 ordinary shares in the share capital of Haily ("Haily Share(s) or Share(s)") on the ACE Market of Bursa Securities ("Listing"), Haily had undertaken the following transactions:

1.2 **Listing Scheme**

1.2.1 **Public Issue**

The Public Issue of 30,000,000 new Haily Shares at the initial public offering ("IPO") price of RM0.68 per Share, representing approximately 16.83% of the enlarged number of shares of Haily, will be allocated in the following manner:

(i) 8,920,000 Public Issue Shares will be offered to the Malaysian Public by way of balloting, of which at least 50% will be set aside for Bumiputera investors;

(ii) 10,000,000 Public Issue Shares will be made available for application by the eligible directors and employees of the Group and other persons who have contributed to the success of the Group; and

(iii) 11,080,000 Public Issue Shares will be made available for private placement to the selected Bumiputera Investors approved by Ministry of International Trade and Industry ("MITI") and the selected investors.

(Collectively hereinafter referred to as "Public Issue").

1.2.2 **Offer for Sale**

Offer for sale of 18,000,000 existing Haily Shares at the IPO price of RM0.68 per Share representing 10.09% of the enlarged issued share capital by way of private placement to the selected Bumiputera investors approved by MITI and the selected investors.

1.2.3 **Listing**

Upon completion of the IPO, Haily's entire enlarged issued share capital of approximately RM61.93 million comprising 178,320,700 Shares will be listed on the ACE Market of Bursa Securities.

HAILY GROUP BERHAD AND ITS SUBSIDIARIES

2. BASIS OF PREPARATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

2.1 The pro forma consolidated statements of financial position have been prepared to illustrate the consolidated financial position of the Group as at 31 December 2020, adjusted for the Public Issue, Offer for Sale and use of proceeds as described in Notes 1.2.1, 1.2.2 and 3.2.2 respectively.

2.2 The audited financial statements of the Group for the financial year ended ("FYE") 31 December 2020 were reported by the auditors to its member without any modifications.

2.3 The pro forma consolidated statements of financial position of the Group have been prepared for illustrative purposes only and, such information may not, because of its nature, give a true picture of the actual financial position and the results of the Group and does not purport to predict the future financial position and results of the Group.

2.4 The pro forma consolidated statements of financial position of the Group has been properly prepared on the basis set out in the accompanying notes to the pro forma consolidated statements of financial position based on the audited financial statements of the Group for the FYE 31 December 2020, which have been prepared in accordance with the Malaysian Financial Reporting Standards and the International Financial Reporting Standards.

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3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP

3.1 The pro forma consolidated statements of financial position of the Group as set out below, for which the directors of Haily are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited consolidated statements of financial position of the Group as at 31 December 2020, had the transactions as described in Note 1.2 and use of proceeds as described in Note 3.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

	Audited Consolidated Statements of Financial Position as at 31 December 2020 RM'000	Pro Forma I After the Public Issue and the Offer for Sale RM'000	Pro Forma II After Pro Forma I and the use of proceeds RM'000
ASSETS			
Non-current assets			
Property, plant and equipment	4,116	4,116	4,116
Goodwill	118	118	118
Other investments	1,818	1,818	1,818
Total non-current assets	**6,052**	**6,052**	**6,052**
Current assets			
Current tax assets	1	1	1
Trade and other receivables	73,911	73,911	73,406
Contract assets	29,677	29,677	29,677
Cash and short-term deposits	27,154	47,554	45,875
Total current assets	**130,743**	**151,143**	**148,959**
TOTAL ASSETS	**136,795**	**157,195**	**155,011**
EQUITY AND LIABILITIES			
Equity attributable to owners of the Group			
Share capital	41,530	61,930	61,392
Reorganisation reserve	(40,030)	(40,030)	(40,030)
Retained earnings	50,474	50,474	48,828
TOTAL EQUITY	**51,974**	**72,374**	**70,190**

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HAILY GROUP BERHAD AND ITS SUBSIDIARIES

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.1 (Continued)

	Audited Consolidated Statements of Financial Position as at 31 December 2020 RM'000	Pro Forma I After the Public Issue and the Offer for Sale RM'000	Pro Forma II After Pro Forma I and the use of proceeds RM'000
Non-current liabilities			
Loans and borrowings	1,102	1,102	1,102
Deferred tax liabilities	187	187	187
Total non-current liabilities	**1,289**	**1,289**	**1,289**
Current liabilities			
Loans and borrowings	6,468	6,468	6,468
Current tax liabilities	1,054	1,054	1,054
Trade and other payables	73,050	73,050	73,050
Contract liabilities	2,960	2,960	2,960
Total current liabilities	**83,532**	**83,532**	**83,532**
TOTAL LIABILITIES	**84,821**	**84,821**	**84,821**
TOTAL EQUITY AND LIABILITIES	**136,795**	**157,195**	**155,011**
Number of ordinary shares assumed to be in issue ('000)	148,321	178,321	178,321

NA^ (RM'000)	51,974	72,374	70,190
NA per ordinary share (RM)	0.35	0.41	0.39

^ attributable to owners of the Group

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 Notes to the pro forma consolidated statements of financial position are as follows:

3.2.1 The pro forma consolidated statements of financial position of the Group, for which the directors of Haily are solely responsible, have been prepared for illustrative purposes only, to show the effects on the audited consolidated statements of financial position of the Group as at 31 December 2020, had the transactions as described in Note 1.2 and use of proceeds as described in Note 3.2.2 been effected on that date, and should be read in conjunction with the notes accompanying thereto.

3.2.2 The proceeds from the Public Issue would be use in the following manner:

Purpose	RM'000	%	Time frame for utilisation from the date of listing
Not reflected in pro forma consolidated statements of financial position			
Purchase of construction machinery, equipment as well as new contract management and accounting software and office equipment[1]	4,200	20.59	Within 24 months
General working capital	6,000	29.41	Within 24 months
Repayment of bank borrowings [2]	7,000	34.31	Within 3 months
Reflected in pro forma consolidated statements of financial position			
Estimated listing expenses	3,200	15.69	Within 3 months
Gross proceeds	20,400	100.00	

(1) As at the latest practicable date, the Group has yet to enter into any contractual binding agreement or issue any purchase order in relation to the purchase of construction machinery, equipment as well as new contract management and accounting software and office equipment. Accordingly, the use of proceeds earmarked for the purchase of construction machinery, equipment as well as new contract management and accounting software and office equipment are not reflected in the pro forma consolidated statements of financial position.

(2) As at 31 December 2020, the Group has yet to enter into contractual binding agreement for the repayment of bank borrowings. Accordingly, the use of proceeds earmarked for the repayment of bank borrowings are not reflected in the pro forma consolidated statements of financial position.

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.3 The pro forma consolidated statements of financial position should be read in conjunction with the notes below:

(a) **Pro Forma I**

Pro Forma I incorporates the effects of the Public Issue and the Offer for Sale as described in Notes 1.2.1 and 1.2.2 respectively on the audited consolidated statements of financial positions as at 31 December 2020.

The Public Issue and Offer for Sales will have the following impact on the audited consolidated statements of financial position of the Group as at 31 December 2020:

	Increase	
	Effects on Total Assets RM'000	Effects on Total Equity RM'000
Cash and short-term deposits	20,400	-
Share capital	-	20,400
	20,400	20,400

(b) **Pro Forma II**

Pro Forma II incorporates the cumulative effects of Pro Forma I and the use of proceeds from the Public Issue of RM20.40 million after netting off RM3.20 million of estimated listing expenses.

The remaining proceeds expected from the Public Issue of RM17.20 million will be used in the manner as described in Note 3.2.2.

The proceeds arising from the Public Issue earmarked for the purchase of construction machinery, equipment as well as new contract management and accounting software and office equipment, working capital for the Group's construction projects and repayment of bank borrowings of RM17.20 million will be included in the Cash and Short-Term Deposits Account.

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.3 (Continued)

(b) **Pro Forma II (Continued)**

As at 31 December 2020, out of the RM3.20 million listing expenses, RM1.52 million has already been incurred of which RM1.02 million is charged to the Retained Earnings Account and RM0.50 million has been recognised as prepayment. The RM0.50 million is recognised as prepayment as this is direct attributable expenses relating to the new issuance of shares which will be capitalised as Share Capital Account upon Listing.

Out of the remaining estimated listing expense to be incurred of RM1.68 million, RM1.65 million will be charged to Retained Earnings Account and RM0.03 million is recognised in Share Capital Account as this are directly attributable expenses relating to the new issuance of shares. Together with the amount previously recorded as prepayment of RM0.50 million, a total of RM0.53 million will be capitalised under Share Capital Account.

The use of proceeds will have the following impact on the pro forma consolidated statements of financial position of the Group as at 31 December 2020:

	Decrease	
	Effects on Total Assets RM'000	Effects on Total Equity/ Liabilities RM'000
Cash and short-term deposits	(1,679)	-
Trade and other receivables	(505)	-
Share capital	-	(538)
Retained earnings	-	(1,646)
	(2,184)	(2,184)

HAILY GROUP BERHAD AND ITS SUBSIDIARIES

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.4 Movements in share capital and reserves are as follows:

	Share capital RM'000	Reorganisation reserve RM'000	Retained earnings RM'000
Audited consolidated statements of financial position of the Group as at 31 December 2020	41,530	(40,030)	50,474
Arising from the Public Issue and the Offer for Sale	20,400	-	-
Per Pro Forma I	61,930	(40,030)	50,474
Arising from the defrayment of estimated listing expenses in relation to the Listing	(538)	-	(1,646)
Per Pro Forma II	61,392	(40,030)	48,828

3. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF THE GROUP (CONTINUED)

3.2 (Continued)

3.2.5 Movements in cash and short-term deposits are as follows:

	RM'000
Audited consolidated statements of financial position of the Group as at 31 December 2020	27,154
Arising from the Public Issue and the Offer for Sale	20,400
Per Pro Forma I	47,554
Arising from the defrayment of estimated listing expenses in relation to the Listing	(1,679)
Per Pro Forma II	45,875

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HAILY GROUP BERHAD AND ITS SUBSIDIARIES

APPROVAL BY BOARD OF DIRECTORS

Approved and adopted by the Board of Directors of Haily Group Berhad in accordance with a resolution dated 15 JUN 2021.

....
See Tin Hai
Director

....
Yoong Woei Yeh
Director

15. STATUTORY AND GENERAL INFORMATION

15.1 SHARE CAPITAL

(a) No securities will be allotted or issued or offered on the basis of this Prospectus later than 6 months after the date of the issue of this Prospectus.

(b) As at the date of this Prospectus, we have only 1 class of shares in our Company, namely ordinary shares, all of which rank equally with one another. There are no special rights attached to our Shares.

(c) Save as disclosed in this Prospectus, no shares, debentures, warrants, options, convertible securities or uncalled capital of the Company or our subsidiaries have been issued or are proposed to be issued as fully or partly paid-up, in cash or otherwise than in cash, within 3 years preceding the date of this Prospectus.

(d) None of our Group's share capital is under option, or agreed conditionally or unconditionally to be put under any option as at the date of this Prospectus.

(e) Save for the Pink Form Allocations as disclosed in Section 4.3.2,

- no Directors or employees have been or are entitled to be given or have exercised any option to subscribe for any share of our Company or our subsidiaries; and

- there is no scheme involving the employees of our Group in the shares of our Company or our subsidiaries.

(f) As at the date of this Prospectus, we do not have any convertible debt securities.

15.2 EXTRACT OF OUR CONSTITUTION

The following is extracted from our Constitution and is qualified in its entirety by the remainder of the provision of our Constitution and by applicable law. The words and expressions appearing in the following provisions shall bear the same meanings used in our Constitution unless there are otherwise defined herein or the context otherwise requires.

Words	Definitions
Act	means the Companies Act 2016 of Malaysia and any statutory modification, amendment or re-enactment thereof for the time being in force
Central Depositories Act	means the Securities Industry (Central Depositories) Act 1991 and every statutory modification or re-enactment thereof for the time being in force
Company	means Haily Group Berhad [Registration No. 202001006412 (1362732-T)] and by whatever name from time to time called
Constitution	means this Constitution as originally framed or as from time to time altered by Special Resolution and "Clause" means any provision in this Constitution
Deposited Security	means the Securities of the Company standing to the credit of a Securities Account and includes Securities in a Securities Account that is in suspense
Depositor	means a holder of a Securities Account
Depository or Central Depository	means Bursa Malaysia Depository Sdn Bhd. [Registration No. 198701006854 (165570-W)] and its successors-in-title and permitted assigns

15. STATUTORY AND OTHER GENERAL INFORMATION (CONT'D)

Words	Definitions
Director	means a director of the Company for the time being and as defined in Section 2 of the Act
Exchange	means Bursa Malaysia Securities Berhad [Registration No. 200301033577 (635998-W)] and its successors-in-title and permitted assigns.
General Meeting	Means a meeting of Members of the Company.
in writing or written	means and includes words printed, lithographed, photographed, typed, represented or reproduced in any mode in a visible form, whether sent or supplied in electronic form or otherwise.
Listing Requirements	means the Exchange ACE Market Listing Requirements including any amendment thereto that may be made from time to time.
Major Shareholder	means a major shareholder as defined under the Listing Requirements.
Member or Members	means any person/persons for the time being holding one or more shares in the Company and whose name appears in the Record of Depositors, including a Depositor who will be treated as if he were a member pursuant to Section 35 of the Central Depositories Act but excluding the Depository in a capacity as a bare trustee and its nominee company
Office	means the registered office for the time being of the Company
Ordinary Resolution	has the meaning given in Section 291 of the Act.
Record of Depositors	means a record provided by the Depository to the Company pursuant to an application under the Rules
Rules	means the Rules of Depository, including any amendment that may be made from time to time
Securities	has the meaning given in Section 2(1) of the Capital Markets and Services Act 2007
Securities Account	means an account established by the Depository for a Depositor for the recording of deposit of Securities and for dealing in such Securities by the Depositor
Special Resolution	has the meaning given in Section 292 of the Act

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(i) Transfer of securities

The provision in our Company's Constitution in respect of the arrangements for transfer of securities and restrictions on their free transferability are as follows:

"**Clause 40**

(a) Subject to the restriction of this Constitution, the Central Depositories Act and the Rules, Securities that are not Deposited Securities shall be transferable by a duly executed and stamped instrument of transfer lodged at the Office accompanied by the certificate of the shares to be transferred (if any) and such other evidence (if any) as the Directors may reasonably require to show the right of the transferor to make the transfer. All instruments of transfer which shall be registered shall be retained by the Company.

(b) The transfer of Deposited Securities shall be by way of book entry by the Depository in accordance with the Rules and, notwithstanding Sections 105, 106 or 110 of the Act, but subject to Section 148(2) of the Act and any exemption that may be made from compliance with Section 148(1) of the Act, the Company shall be precluded from registering and effecting any transfer of the Deposited Securities.

Clause 41

Subject to the provisions of the Act, the Central Depositories Act and the Rules, the instrument of transfer of any share which is not a Deposited Security lodged with the Company shall be executed by or on behalf of both the transferor and the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the Register of Members in respect thereof. The instrument of transfer shall in any one instance relate to one class of shares.

Clause 42

In the case of Deposited Security, the Depository may refuse to effect any transfer of Deposited Security that does not comply with the Central Depositories Act and Rules or where the reason for the transfer does not fall within any of the approved reasons provided in the Rules.

Clause 43

(a) The Directors may in their absolute discretion refuse or delay to register any transfer of shares that is not a Deposited Security where the registration of the transfer would result in contravention of or failure to observe the provisions of any laws in Malaysia; or the transfer is in respect of a partly paid shares of which a call has been made and is unpaid or which the Company has a lien.

(b) A Directors' resolution shall be passed within thirty (30) days from the receipt of the instrument of transfer to refuse or delay the registration of transfer of a share that is not a Deposited Security and such notice of the resolution including the reasons thereof shall be sent to the transferor and the transferee within seven (7) days of the resolution being passed.

(c) The Company shall refuse to register more than three (3) persons as joint holders of a share unless they are executors or trustees of a deceased shareholder.

Clause 46

No share shall in any circumstances be transferred to any infant, bankrupt or person of unsound mind.

Clause 47

A Record of Depositors requested by the Company as at any specified date and/or for any specified purpose when made available to the Company may be treated as the final Record of Depositors as at the specified date and/or for the specified purpose. If there shall be more than one Record of Depositors made available to the Company as at the specified date and/or for the specified purpose then the later or last of the Record of Depositors prepared by the Central Depository shall be the final Record of Depositors as at the specified date and/or for the specified purpose."

(ii) Remuneration of Directors

The provisions in our Company's Constitution in respect of the remuneration of Directors are as follows:

"**Clause 117**

The fees of the non-executive Directors shall be a fixed sum and not by a commission on or percentage of profits or turnover, and such fee shall be divided amongst the non-executive Directors as they shall determine or failing agreement, equally. The salaries payable to executive Directors, may however, include such percentage of profits as the Directors may determine but shall not in any circumstances include a commission on or percentage of turnover. The Director shall (including alternate directors) also be paid such travelling, hotel or other expenses as may reasonably be incurred by them in the execution of their duties including such expenses incurred in connection with their attendance at meetings of Directors. If by arrangement with the other Directors any Director shall perform or render any duties or services outside his ordinary duties as a Director or shall make any special exertions in going or residing away from his usual place of business or residence for any of the purposes of the Company or shall give special attention to the business of the Company as a member of a committee of Directors, the Directors may pay him special remuneration in a lump sum in addition to his ordinary remuneration. The fees of Directors, and any benefits payable to Directors shall be approved by Members annually at a general meeting.

Clause 124

The remuneration of a Managing Director, a Deputy Managing Director and an Executive Director given due to his office as executive or management position, if any, shall be fixed by the Directors and may be by way of salary or commission or participation in profits or otherwise or by any or all of these modes, but shall not be a commission on or percentage of turnover but it may be a term of their appointment that they shall receive pension, gratuity or other benefits upon their retirement. The remuneration of a Director(s) appointed to an executive position under Clause 123 shall be determined by the Board and can either be in addition to or in lieu of his/their fee as a Director."

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(iii) Voting and borrowing powers of Directors

The provisions in our Company's Constitution in respect of the voting and borrowing powers of Directors, including voting powers on contracts or arrangements in which they are interested in, are as follows:

"**Clause 120**

No Director shall be disqualified by his office from holding any office or place of profit under the Company or under any company in which the Company shall be a shareholder or otherwise interested in conjunction with his office of Director (except that of auditor) or from contracting with the Company either as vendor, purchaser, or otherwise, nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company in which any Director shall be in any way interested be avoided, nor shall any Director be liable to account to the Company for any profit arising from any such office or place of profit or realised by any such contract or arrangement by reason only of such Director holding that office or of the fiduciary relations thereby established provided always that Sections 221, 222 and 228 and all other relevant provisions of the Act and this Constitution are complied with. A Director who is in any way, whether directly or indirectly, interested in a contract entered into or proposed to be entered into by the company, unless the interest is one that need not be disclosed under Section 221 of the Act, shall be counted only to make the quorum at the meeting of the Directors but shall not participate in any discussion while the contract or proposed contract is being considered during the meeting and shall not vote on the contract or proposed contract.

Clause 121

Subject to the provisions of the Act, 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, provided that nothing herein contained shall authorise a Director or his firm to act as auditor of the Company.

Clause 122

A general notice given to the Board by a Director to the effect that the Director is an officer or member of a specified corporation or a member of a specified firm and is to be regarded as interested in any contract which may, after the date of the notice, be made with that corporation or firm shall be deemed to be a sufficient declaration of interest in relation to any contract made if the notice specifies the nature and extent of the Director's interest in the specified corporation or firm and the interest is not different in nature or greater in extent than the nature and extent so specified in the general notice at the time any contract is so made. Such notice shall be of no effect unless the notice is given at a meeting of the Directors or the Director takes reasonable steps to ensure that the notice is brought up and read at the next meeting of the Directors after it is given.

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Clause 126

The business of the Company shall be managed by, or under the direction of the Directors who may pay all such expenses of and preliminary and incidental to the promotion, formation, establishment and registration of the Company as they think fit, and may exercise all such powers of the Company and do on behalf of the Company all such acts as may be exercised and done by the Company, and as are not by law or by this Constitution required to be exercised or done by the Company in general meeting, but the exercise of all such powers shall be subject to and in accordance with the provisions of any law and of this Constitution and shall also be subject to and in accordance with any regulations or provisions made by the Company in general meeting, provided that no regulation so passed shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

Clause 127

The Directors may from time to time by power of attorney under Seal or such other manner authorised by the Act, appoint any corporation, firm or person or body of persons whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purposes and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under this Constitution) and for such period and subject to such conditions as they may think fit, and any such powers of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney as the Directors may think fit and may also authorise any such attorney to sub-delegate all or any of the powers, authorities and discretion vested in him.

Clause 128

Subject to the provisions of the Act, the Directors shall not acquire an undertaking or property of a substantial value or dispose of the whole or substantially the whole of the undertaking of the Company unless approval of the Members at a general meeting has been obtained.

Clause 142

Subject to the provisions of this Constitution, question arising at any meeting shall be decided by a majority of votes of the Directors present, each Director having one (1) vote. In case of an equality of votes, the chairman shall have a second or casting vote provided always that the chairman of a meeting at which only two (2) Directors are present or at which only two (2) Directors are competent to vote on the questions at issue shall not have a second or casting vote.

Clause 149

A resolution in writing signed or approved by a majority of the Directors shall be as valid and effectual as if it had been passed at a meeting of the Directors duly called and constituted. All such resolutions shall be described as "Directors' Circular Resolutions" and may consist of several documents in like form each signed by one or more Directors or their alternates and shall be forwarded or otherwise delivered to the Secretary without delay, and shall be recorded by him in the minutes book of board proceedings. A Directors' Circular Resolution shall be inoperative if it shall purport to authorise or to do any act which a meeting of Directors has decided shall not be authorised or done, until confirmed by a meeting of the Directors. The expressions of "in writing" or "signed" include approval by legible confirmed transmission by facsimile or other forms of electronic communications.

Clause 152

The Directors may from time to time at their discretion raise or borrow for the purpose of the Company such sums of moneys as they think proper. The Directors shall not borrow any money or mortgage or charge any of the Company's or its 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.

Clause 153

The Directors may raise or secure the repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular by the issue of bonds, perpetual or redeemable, debentures or debenture stock or any mortgage, charge or other security on the undertaking or the whole or any part of the property of the Company (both present and future) including its uncalled capital for the time being.

Clause 154

The Company may in general meeting grant a right for the holders of bonds, debentures, debenture stock or securities to exchange the same for the shares in the Company authorised to be issued.

Clause 155

Subject as aforesaid, the Directors may secure or provide for the payment of any moneys to be borrowed or raised by mortgage of or charge upon all or any part of the undertaking or property of the Company, both present and future, and any capital remaining unpaid upon shares of the Company, whether called up or not or by any other security, and the Directors may confer upon any mortgagees or persons in whom any debentures, debenture stock or security is vested, such rights and powers as they think necessary or expedient; and they may vest any property of the Company in trustees for the purpose of securing any money so borrowed or so raised, and confer upon the trustees or any receiver to be appointed by them or by any debenture holder, such rights and powers as the Directors may think necessary or expedient in relation to the undertaking or property of the Company, or the management, or the realisation thereof, of the making, receiving or enforcing of calls upon the Members in respect of unpaid capital and otherwise, and may make and issue debentures to trustees for the purpose of further security, and any such trustees may be remunerated.

Clause 156

The Directors may give security for the payment of any moneys payable by the Company in like manner as for the payment of money borrowed or raised, but in such case the amount shall be reckoned as part of the money borrowed.

Clause 157

Debentures, debenture stock or other securities may be made assignable free from any equities between the Company and the person to whom the same may be issued.

Clause 158

Any debentures, debenture stock, bonds or other securities may be issued with any special privileges as to redemption, surrender, drawings, allotment of shares, attending and voting at general meetings of the Company, appointment of Directors and otherwise.

Clause 159

The Directors shall cause proper register to be kept in accordance with the provisions of the Act of all charges specifically affecting the property of the Company and all floating charges on the undertaking or any property of the Company and shall duly comply with the requirements of the Act in regard to the registration of charges therein specified and otherwise.

Clause 160

If the Directors or any of them, or any other persons shall become personally liable for the payment of any sum primarily due from the Company, the Directors may execute or cause to be executed any mortgage, charge or security over or affecting the whole or any part of the assets of the Company by way of indemnity to secure the Directors or persons so becoming liable as aforesaid from any loss in respect of such liability."

(iv) Changes in capital or variation of class rights

The provisions in our Company's Constitution in respect of the changes in capital and variation of class rights, which are no less stringent than those required by law, are as follows:

"**Clause 7**

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 or other special rights, privileges, conditions or restrictions as to dividend, capital, voting or otherwise.

Clause 9

The shares in the Company shall only be issued by the Directors with the prior approval of the Company in general meeting where necessary under the provisions of the Act and the Listing Requirements. Subject as aforesaid and always to the provisions of this Constitution, the Listing Requirements and the Act, the Directors may allot or otherwise dispose of the shares in the Company to such persons on such terms and conditions and at such times as the Directors think fit and with full power to give to any person the right to call for the allotment of any shares for such time and for such consideration as the Directors may see fit, provided always: -

(a) except in the case of an issue of shares on a pro-rata basis to all Members, every issue of shares to employees, Directors, Major Shareholders or person connected with any Director or Major Shareholder of the Company shall be approved by the Members in general meeting and no Director, Major Shareholder shall participate in such issue of share unless: -

   (i) the Members in general meetings have approved the specific allotment to be made to such Director, Major Shareholder or person connected with such Director or Major Shareholder; and

   (ii) in the case of a Director, such Director holds office in the Company in an executive capacity provided always that a Director not holding office in an executive capacity may so participate in any issue of shares pursuant to a public issue or public offer or special issue, such participation to be approved by the relevant authorities;

(b) no Director shall participate in an Employee Share Scheme unless Members in general meeting have approved the specific allotment to be made to such Director.

Clause 14

The Company shall have power with the sanction of an ordinary resolution of the Company to issue preference shares carrying a right to redemption or liable to be redeemed at the option of the Company or to issue preference shares ranking equally with or in priority to preference shares already issued. The Directors may subject to the Act, redeem such shares on such terms and in such manner as they may think fit provided always that the rights attaching to shares of a class other than ordinary shares shall be expressed.

Clause 15

The rights attaching to shares of a class other than ordinary shares be expressed in the Resolution creating the same.

Clause 16

The right 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 the issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking equally therewith but in no respect in priority thereto.

Clause 18

The repayment of preference capital other than redeemable preference, or any other alteration of preference shareholders rights, may 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, if obtained from the holders of three-fourths 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.

Clause 19

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied with the consent in writing of the holders of three-fourths of the issued shares of that class, or with the sanction of a special resolution passed at a separate General Meeting of the holders of the shares of the class. To every such separate General Meeting the provisions in this Constitution relating to the General Meeting shall mutatis mutandis apply, but so that the necessary quorum shall be two persons at least holding or representing by proxy one-third of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll. To every such special resolution the provisions of Section 292 of the Act shall, with such adaptations as are necessary, apply."

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15.3 NO LIMITATON ON THE RIGHT TO OWN SECURITIES

There are no limitations on the right to own securities, including limitations on the right of non-resident or foreign shareholders to hold or exercise voting rights on our Shares imposed by law or by constituent documents of the Company.

15.4 GENERAL INFORMATION

(a) The nature of our business has been disclosed in Section 7 of this Prospectus.

(b) Our Company has not established any other place of business outside Malaysia.

(c) Apart from the listing sought on the ACE Market, our Company is not listed on any other stock exchange.

(d) Save as disclosed in this Prospectus, no commissions, discounts, brokerages or other special terms have been paid or is payable by our Company within the two years immediately preceding the date of this Prospectus for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in or debentures of our Company and in connection with the issue or sale of any capital of our Company and no Director or Promoter or substantial shareholder or expert is or are entitled to receive any such payment or any other benefits.

(e) Save as disclosed in Section 6 of this Prospectus, there is no person, so far as known to us, who directly or indirectly, jointly or severally, exercises control over us.

15.5 MATERIAL CONTRACTS

Save as disclosed below, our Company has not entered into any material contracts which is not in the ordinary course of our Company's business within the Financial Years Under Review and up to the date of this Prospectus:

(a) In 2019, we secured the 174 DSTH St Marco Park (Phase 2) Project with contract value of RM41.50 million from Pembinaan Intra Vista Sdn Bhd ("PIV"). This is for the construction of 174 units of 2-storey terrace house in Kulai, Johor. The project commenced construction in the same year of 2019 and was initially scheduled to be completed by November 2020. The total outstanding (including retention sum) for this project was RM10,637,252.96 based on construction works done till 21 August 2020. On 21 September 2020, Casa Bayu Idaman Sdn Bhd ("Casa Bayu" or the "Developer"), PIV as the main contractor and Haily Construction as a sub-contractor entered into an agreement (which was subsequently supplemented by a supplementary agreement dated 15 January 2021) for the mutual termination of 174 DSTH St Marco Park (Phase 2) Project and the settlement of the outstanding work done till 31 July 2020 and retention sum for 93 DSTH St Marco Park (Phase 1) Project of RM1,653,173.82, which sums up to RM12,290,426.78 for works performed in relation to the following construction projects:

    (i) 93 DSTH St Marco Park (Phase 1) Project; and
    (ii) 174 DSTH St Marco Park (Phase 2) Project,

    (referred to as "St Marco Settlement Agreement").

15. STATUTORY AND OTHER GENERAL INFORMATION (CONT'D)

Further details of the St Marco Settlement Agreement are set out below:

- The breakdown of the settlement amount for the construction works performed are as set out in the table below:

93 DSTH St Marco Park (Phase 1) Project	174 DSTH St Marco Park (Phase 2) Project
RM1,653,173.82 ("Phase 1 Indebtedness")	RM10,637,252.96 ("Phase 2 Indebtedness")

- The payment terms and the agreed timeline for settlement are as tabulated below:

Phase 1 Indebtedness:

Amount of Settlement	Agreed Settlement Date
RM461,597.64 for main building works performed	28 September 2020 (which payments have been received in full on 7 October 2020 of RM100,000, 8 October 2020 of RM100,000 and 9 October 2020 of RM261,597.64)
RM149,826.18 for mechanical and engineering works performed	21 September 2020 (which payment has been received on 21 September 2020)
RM1,041,750.00 being agreed retention sum payable in 3 tranches	(i) RM260,437.50 by 30 April 2021(1)
	(ii) RM260,437.50 by 31 May 2021(1)
	(iii) RM520,875.00 within 30 days after the issuance of the certificate of making good defects ("CMGD") for the 93 DSTH St Marco Park (Phase 1) Project ("final retention sum")
Total amount payable for Phase 1 Indebtedness is RM1,653,173.82	

Note:

(1) PIV applied for extension of time up to 31 May 2021 on 30 April 2021 and further extension of time up to 30 June 2021 on 10 May 2021 for the settlement of the amount of RM520,875.00 which was duly agreed by Haily Construction on 10 May 2021.

On 14 June 2021, PIV applied for a further extension of time up to 31 July 2021 for the settlement of the amount of RM520,875.00 which was duly agreed by Haily Construction on 15 June 2021.

The Phase 1 Indebtedness is based on work completed as at 31 July 2020. Further claims by Haily Construction for works done from August 2020 shall be subject to certification within 21 days from the date of receipt of the Haily Construction's claim and to be mutually agreed upon and payable by PIV to Haily Construction within 30 days from the date of receipt of invoice from Haily Construction.

As at the LPD, the 93 DSTH St Marco Park (Phase 1) Project has been completed on 24 November 2020 and the CPC has been obtained. The said project is in its defects liability period ("DLP"). Upon expiry of the DLP, we will receive the CMGD for the project where we will be able to claim the final retention sum.

Phase 2 Indebtedness:

RM9,486,006.78 for main building works performed and RM1,151,246.18 as retention sum for the 174 DSTH St Marco Park (Phase 2) Project will be settled based on the terms and timeline indicated below:

Amount of Settlement	Agreed Settlement Date
RM3,120,000.00	By 21 December 2020, being 3 months from the date of the St Marco Settlement Agreement, subject to the completion of the disposal of 6 units of properties by the Developer and the settlement sum to be paid directly to Haily Construction
RM3,000,000.00	By 15 April 2021, being 3 months from the date of the supplementary agreement, subject to the completion of the disposal of 4 units of properties by the Developer and the settlement sum to be paid directly to Haily Construction
RM4,517,252.96 being the balance outstanding payable in 8 tranches	(i) RM334,413.39 by 15 January 2021 (which payment has been received on 15 January 2021)
	(ii) RM100,000.00 by 19 January 2021 (which payment has been received on 19 January 2021)
	(iii) RM200,000.00 by 29 January 2021 (which payment has been received on 29 January 2021)
	(iv) RM300,000.00 by 5 February 2021 (which payment has been received on 5 February 2021)
	(v) RM500,000.00 by 26 February 2021 (which payment has been received on 26 February 2021)
	(vi) RM1,000,000.00 by 31 March 2021 (which the payment of RM250,000 has been received on 30 March 2021). On 31 March 2021, PIV applied for extension of time up to end April 2021 for the settlement of the balance of RM750,000 which was duly agreed by Haily Construction on 9 April 2021. On 29 April 2021, the payment of RM100,000 has been received. PIV had applied for extension of time up to 15 May 2021 on 30 April 2021 and further extension of time up to 31 May 2021 on 10 May 2021 for the settlement of the balance of RM650,000 which was duly agreed by Haily Construction on 10 May 2021.

15. STATUTORY AND OTHER GENERAL INFORMATION (CONT'D)

Amount of Settlement	Agreed Settlement Date
	On 31 May 2021, PIV has applied for further extension of time to settle the balance of RM650,000 which was duly agreed by Haily Construction on 31 May 2021 in which RM100,000 is to be paid on 9 July 2021 and the balance of RM550,000 to be settled by PIV to Haily Construction by 31 July 2021.
	(vii) RM1,000,000.00 by 30 April 2021[(1)]
	(viii) RM1,082,839.57 by 31 May 2021[(1)]
Total amount payable for Phase 2 Indebtedness is RM10,637,252.96	

Note:

(1) On 30 April 2021, PIV applied to reschedule the payment of the balance sum of RM2,082,839.57 as follows:

(i) a sum of RM109,343.75 to be paid by PIV to Haily Construction by 31 May 2021 (It was further extended up to 30 June 2021 on 10 May 2021 and was duly agreed by Haily Construction on 10 May 2021);

(ii) a sum of RM1,500,000.00 to be paid by 30 June 2021 from the drawdown of PIV's term loan facility and was duly agreed by Haily Construction on 30 April 2021;

(iii) the balance sum of RM473,495.82 to be paid by PIV to Haily Construction by 31 July 2021 which was duly agreed by Haily Construction on 30 April 2021.

On 14 June 2021, PIV applied for a further extension of time for the settlement of the following amounts that were payable by 30 June 2021:

(i) the sum of RM109,343.75 to be paid by PIV to Haily Construction by 31 July 2021; and

(ii) RM1,500,000.00 to be paid by 31 July 2021 from the drawdown of PIV's term loan facility.

The above have been duly agreed by Haily Construction on 15 June 2021.

- As security for the full repayment of Phase 1 Indebtedness and Phase 2 Indebtedness by PIV to Haily Construction and the performance and observance of the terms and conditions of the St Marco Settlement Agreement, a director of Casa Bayu has executed a letter of guarantee and indemnity in favour of Haily Construction to undertake the payment of the amount guaranteed and the due performance of the guarantee.

- Pursuant to the St Marco Settlement Agreement, the termination and hand over of the 174 DSTH St Marco Park (Phase 2) Project to PIV are subject to the fulfilment and satisfaction of the following conditions:

  (i) the accounts for 174 DSTH St Marco Park (Phase 2) Project to be agreed and finalised between PIV and Haily Construction and duly certified by a qualified quantity surveyor;

  (ii) the sale and purchase agreements for the 6 units of properties to be executed between the Developer and Top City Development Sdn Bhd[(1)] have been executed;

  (iii) the full purchase price for the 6 units of properties to be paid in accordance with the terms of the St Marco Settlement Agreement and confirmed by the Developer, PIV and Haily Construction;

  (iv) personal guarantee to be duly executed by the director of Casa Bayu;

  (v) the sale and purchase of the agreements for the 4 units of properties to be executed between the Developer and Haily Construction's nominated purchaser(s) have been executed; and

  (vi) the full purchase price for the 4 units of properties to be paid in accordance with the terms of the St Marco Settlement Agreement and confirmed by the Developer, PIV and Haily Construction.

  As at the LPD, the aforesaid conditions have been duly fulfilled and satisfied by the relevant parties and hence, 174 DSTH St Marco Park (Phase 2) Project was thereby terminated and handed over to PIV.

  Note:
  (1) The directors of Top City Development are Chan Lee Fong and Ng Yong Kian and the shareholders are Chan Lee Fong, Ng Yong Kian and Teh Sim How. Chan Lee Fong also holds shares in Haicon Development Sdn Bhd and Convest Construction Sdn Bhd. Ng Yong Kian is a former employee and was an assistant project manager in Haily Construction. He is currently a shareholder of Yon Marketing Sdn Bhd. Please refer to Section 5.2.3 of this Prospectus for further details.

(b) the share sale agreement dated 24 July 2020 between Haily and Haily Holdings in respect to the Acquisition of Haily Construction;

(c) the sale and purchase agreement dated 10 December 2019 between Haily Construction and Haily Holdings for the disposal of #08-01 Summerscape Condo, #08-02 Summerscape Condo, #08-03 Summerscape Condo, #08-03A Summerscape Condo and #03A-03 Summerscape Condo for a total cash consideration of RM5,202,800. Please refer to Section 10.1 of the Prospectus for further details;

(d) the settlement agreement dated 6 June 2017 between Haily Construction and Venice View Development Sdn Bhd for the contra of C-Ppty 1, C-Ppty 2 and C-Ppty 3 with the partial retention sum of RM2,051,300.00 to be satisfied via cash by Haily Holdings to Haily Construction; and

(e) the Underwriting Agreement dated 15 June 2021 between Haily and the Underwriter for the Underwritten Shares, for the underwriting commission at the rate set out in Section 4.9.2 of this Prospectus. Please refer to Section 4.10 of this Prospectus for further details of the Underwriting Agreement.

Save for the St Marco Settlement Agreement and the Underwriting Agreement referred to under items (a) and (e) above, all the material contracts have been completed. As at the LPD, the completion of the St' Marco Settlement Agreement is subject to the fulfilment of the agreed payment terms and the obligations of the parties to the agreement.

15.6 MATERIAL LITIGATION

As at the LPD, our Company is not involved in any material litigation or arbitration, whether as plaintiff, defendant or third party, including those relating to bankruptcy, receivership or similar proceedings which may have a material adverse effect on the business or financial position of our Company, and our Directors confirm that there are no legal proceedings, pending or threatened, or of any fact likely to give rise to any legal proceeding which may materially and adversely affect our business or financial position.

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15.7 PUBLIC TAKE-OVERS

During the last financial year up to the LPD, there were no public take-over offers by third parties in respect of our Shares and public take-over offers by us in respect of other companies' shares.

15.8 LETTERS OF CONSENT

(a) The written consent of the Principal Adviser, Sponsor, Underwriter, Placement Agent, Company Secretaries, Solicitors, Share Registrar and Issuing House for the inclusion in this Prospectus of their names and all references herein in the form and context in which such names appear in this Prospectus have been given before the issue of this Prospectus and have not subsequently been withdrawn.

(b) The written consent of the Auditors and Reporting Accountants for the inclusion in this Prospectus of its name, Reporting Accountants' Report on the Compilation of Pro Forma Consolidated Statements of Financial Position as at 31 December 2020, Accountants' Report and all references herein in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

(c) The written consent of the IMR for the inclusion in this Prospectus of its name, the IMR Report and all references herein in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

(d) The written consent of the Solicitors for the Principal Adviser, Sponsor, Underwriter, Placement Agent, for the inclusion in this Prospectus of its name and all references herein in the form and context in which they are contained in this Prospectus has been given before the issue of this Prospectus and has not subsequently been withdrawn.

15.9 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at our Registered Office during the normal office hours for a period of 6 months from the date of this Prospectus:

(a) the Constitution of our Company;

(b) Accountants' Report referred to in Section 13 of this Prospectus;

(c) Reporting Accountants' Report on the Compilation of Pro Forma Consolidated Statements of Financial Position as included in Section 14 of this Prospectus;

(d) the material contracts as referred to in Section 15.5 of this Prospectus;

(e) the letters of consent as referred to in Section 15.8 of this Prospectus;

(f) the IMR Report as set out in Section 8 of this Prospectus; and

(g) the audited financial statements of our Company and our Group subsidiaries respectively for the Financial Years Under Review.

15.10 RESPONSIBILITY STATEMENTS

(a) Our Directors and Promoters and the Offeror have seen and approved this Prospectus. They collectively and individually accept full responsibility for the accuracy of the information contained herein. Having made all reasonable enquiries, and to the best of their knowledge and belief, they confirm that there is no false or misleading statement or other fact which if omitted, would make any statement in the Prospectus false or misleading.

(b) TA Securities, being the Principal Adviser, Sponsor, Underwriter and Placement Agent, acknowledges that, based on all available information and to the best of its knowledge and belief, this Prospectus constitutes a full and true disclosure of all material facts concerning the IPO.

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16. PROCEDURES FOR APPLICATION AND ACCEPTANCE

THIS SUMMARY OF PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR PUBLIC ISSUE SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE "DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE" ACCOMPANYING THE ELECTRONIC COPY OF OUR PROSPECTUS ON THE WEBSITE OF BURSA SECURITIES. YOU SHOULD ALSO CONTACT THE ISSUING HOUSE FOR FURTHER ENQUIRIES.

Unless otherwise defined, all words and expressions used here shall carry the same meaning as ascribed to them in our Prospectus.

Unless the context otherwise requires, words used in the singular include the plural, and vice versa.

16.1 OPENING AND CLOSING OF APPLICATION

OPENING OF THE APPLICATION PERIOD: 10.00 A.M., 30 June 2021

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M., 7 July 2021

In the event there is any change to the indicative timetable above, we will advertise the notice of the changes in a widely circulated daily English and Bahasa Malaysia newspapers in Malaysia.

Late Applications will not be accepted.

16.2 METHODS OF APPLICATIONS

16.2.1 Retail Offering

Application must accord with our Prospectus and our Constitution. The submission of an Application Form does not mean that the Application will succeed.

Types of Application and category of investors	Application method
Applications by our eligible Directors, employees and persons who have contributed to the success of our Group	Pink Application Form only
Applications by the Malaysian Public:	
(i) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(ii) Non-Individuals	White Application Form only

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16.2.2 Placement

Types of Application and category of investors	Application method
Applications by: (i) Selected Investors	The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions.
(ii) Bumiputera investors approved by MITI	MITI will contact the Bumiputera investors directly. They should follow MITI's instructions.

Selected investors and Bumiputera Investors approved by MITI may still apply for our Public Issue Shares offered to the Malaysian Public using the White Application Form, Electronic Share Application or Internet Share Application.

16.3 ELIGIBILITY

16.3.1 General

You must have a CDS account and a correspondence address in Malaysia. If you do not have a CDS account, you may open a CDS account by contacting any of the ADAs set out in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the electronic copy of our Prospectus on the website of Bursa Securities. The CDS account must be in your own name. Invalid, nominee or third party CDS accounts will not be accepted for the Applications.

Only **ONE** Application Form for each category from each applicant will be considered and **APPLICATIONS MUST BE FOR AT LEAST 100 PUBLIC ISSUE SHARES OR MULTIPLES OF 100 PUBLIC ISSUE SHARES.**

MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED UNLESS EXPRESSLY ALLOWED IN THESE TERMS AND CONDITIONS. AN APPLICANT WHO SUBMITS MULTIPLE APPLICATIONS IN HIS OWN NAME OR BY USING THE NAME OF OTHERS, WITH OR WITHOUT THEIR CONSENT, COMMITS AN OFFENCE UNDER SECTION 179 OF THE CMSA AND IF CONVICTED, MAY BE PUNISHED WITH A MINIMUM FINE OF RM1,000,000 AND A JAIL TERM OF UP TO 10 YEARS UNDER SECTION 182 OF THE CMSA.

AN APPLICANT IS NOT ALLOWED TO SUBMIT MULTIPLE APPLICATIONS IN THE SAME CATEGORY OF APPLICATION.

16.3.2 Application by the Malaysian Public

You can only apply for our Public Issue Shares if you fulfill all of the following:

(i) You must be one of the following:

(a) a Malaysian citizen who is at least 18 years old as at the date of the application for our Public Issue Shares; or

(b) a corporation / institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors / trustees and if you have a share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or

(c) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.

(ii) You must not be a director or employee of the Issuing House or an immediate family member of a director or employee of the Issuing House; and

(iii) You must submit Applications by using only one of the following methods:

(a) White Application Form; or

(b) Electronic Share Application; or

(c) Internet Share Application.

16.3.3 Application by eligible Directors, employees and persons who have contributed to the success of our Group

The eligible Directors, 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.

16.4 APPLICATIONS 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 RM0.68 for each Public Issue Share.

Payment must be made out in favour of **"TIIH SHARE ISSUE ACCOUNT NO. 703"** and crossed **"A/C PAYEE ONLY"** and endorsed on the reverse side with your name and address.

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods:

(i) despatch by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd (197101000970 (11324-H))
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

(ii) **DELIVER BY HAND AND DEPOSIT** in the drop-in boxes provided at their Customer Service Centre, Unit G-3, Ground Floor, Vertical Podium, Avenue 3, Bangsar South, No. 8, Jalan Kerinchi, 59200 Kuala Lumpur

so as to arrive not later than 5.00 p.m. on 7 July 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.

16.5 APPLICATIONS BY WAY OF ELECTRONIC SHARE APPLICATIONS

Only Malaysian individuals may apply for our Public Issue Shares offered to the Malaysian Public by way of Electronic Share Application.

Electronic Share Applications may be made through the ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, 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.

16.6 APPLICATIONS BY WAY OF INTERNET SHARE APPLICATIONS

Only Malaysian individuals may use the Internet Share Application to apply for our Public Issue Shares offered to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CIMB Bank Berhad, CGS-CIMB Securities Sdn Bhd, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

The exact procedures, terms and conditions for Internet Share Application are set out on the internet financial services website of the respective Internet Participating Financial Institutions.

16.7 AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE

The Issuing House, on the authority of our Board reserves the right to:

(i) reject Applications which:

   (a) do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or

   (b) are illegible, incomplete or inaccurate; or

   (c) are accompanied by an improperly drawn up, or improper form of, remittance; or

(ii) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and

(iii) bank in all Application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 16.8 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 any time within 14 days of the date of the notice issued to you to ascertain that your Application is genuine and valid. Our Board shall not be responsible for any loss or non-receipt of the said notice nor will it be accountable for any expenses incurred or to be incurred by you for the purpose of complying with this provision.

16.8 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.

16.8.1 For applications by way of Application Forms

(i) The Application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary / registered post to your last address maintained with Bursa Depository (for partially successful applications) within ten (10) Market Days from the date of the final ballot at your own risk.

(ii) If your Application is rejected because you did not provide a CDS account number, your Application monies will be refunded via banker's draft sent by ordinary / registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.

(iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by the Issuing House as per items (i) and (ii) above (as the case may be).

(iv) 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 ten (10) Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or by issuance of banker's draft sent by registered post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (ii) above (as the case may be).

16.8.2 For applications by way of Electronic Share Application and Internet Share Application

(i) The Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within two (2) Market Days after the balloting date. The full amount of the Application monies or the balance of it will be credited without interest into your account with the Participating Financial Institution or Internet Participating Financial Institution (or arranged with the Authorised Financial Institutions) within two (2) Market Days after the receipt of confirmation from the Issuing House.

(ii) You may check your account on the 5th Market Day from the balloting date.

(iii) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by 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 ten (10) Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institution will be informed of the unsuccessful or partially successful Applications within two (2) Market Days after the final balloting date. The Participating Financial Institution will credit the Application monies or any part thereof (without interest) within two (2) Market Days after the receipt of confirmation from the Issuing House.

16.9 SUCCESSFUL APPLICANTS

If you are successful in your application:

(i) Our Public Issue Shares allotted to you will be credited into your CDS account.

(ii) A notice of allotment will be despatched to you at your last address maintained with the Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.

(iii) In accordance with Section 14(1) of the SICDA, Bursa Securities has prescribed our Shares as Prescribed Securities. As such, our Public Issue Shares issued / offered through our Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the SICDA and Rules of Bursa Depository.

(iv) In accordance with Section 29 of the SICDA, all dealings in our 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.

16.10 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. +603-27839299
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of the Public Issue Shares derived from successful balloting will be made available to the public at the Issuing House website at https://tiihonline, one **Market Day** after the balloting date.

You may also check the status of your Application at the above website, five 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 copy of our Prospectus on the website of Bursa Securities.