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The information in this Section 8 is based on market research conducted by Protégé Associates commissioned by Coraza Integrated Technology Berhad for the purpose of the IPO.

Date: 30 November 2021

The Board of Directors
Coraza Integrated Technology Berhad,
2777, Lorong Industri 5,
Taman Industri Bukit Panchor,
14300 Nibong Tebal, Pulau Pinang.

Dear Sirs,

Strategic Analysis of the Engineering Supporting Industry in Malaysia

Protégé Associates Sdn Bhd ("**Protégé Associates**") has prepared this 'Strategic Analysis of the Engineering Supporting Industry in Malaysia' for inclusion in the prospectus of Coraza Integrated Technology Berhad ("**Coraza**") in relation to its listing on the ACE Market of Bursa Malaysia Securities Berhad.

Protégé Associates is an independent market research and business consulting company. Our market research reports provide an in-depth industry and business assessment for companies raising capital and funding in the financial markets; covering their respective market dynamics such as market size, key competitive landscape, demand and supply conditions, government regulations, industry trends and the outlook of the industry.

Mr. Seow Cheow Seng is the Managing Director of Protégé Associates. He has 21 years of experience in market research, having started his career at Frost & Sullivan where he spent 7 years. He has been involved in a multitude of industries covering Automotive, Construction, Electronics, Healthcare, Energy, IT, Oil and Gas, etc. He has also provided his market research expertise to government agencies such as Malaysia Digital Economy Corporation Sdn Bhd, Malaysia Debt Ventures Berhad and Malaysia Technology Development Corporation Sdn Bhd.

We have prepared this report in an independent and objective manner and have taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a balanced and fair view of the industry within the boundaries and limitations of secondary statistics, primary research and continued industry movements. Our research has been conducted to present a view of the overall industry and may not necessarily reflect the performance of individual companies in this industry. We are not responsible for the decisions and/ or actions of the readers of this report. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Thank you.

Yours sincerely,

SEOW CHEOW SENG
Managing Director

1.0 Introduction to the Engineering Supporting Industry

The engineering supporting industry ("ESI") mainly involves the manufacture of metal products that are later used to produce various end products. In accordance to the Malaysian Investment Development Authority ("MIDA"), the segmentation of the ESI in Malaysia is as follows:

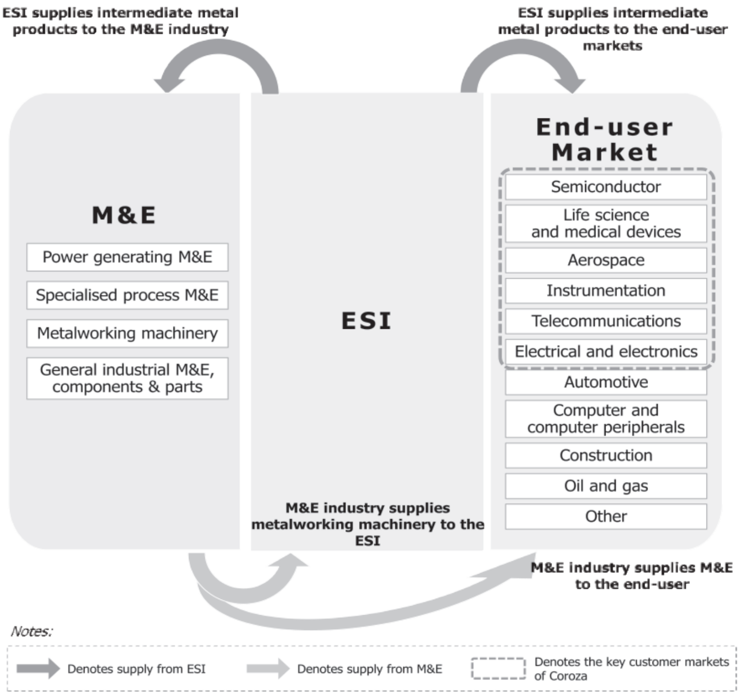
Figure 1 : Segmentation of the ESI

Segment	Description
Moulds and dies	Moulds and dies are generally used in the manufacturing industries. During the casting process, molten metal or other liquid substances are poured into the mould or die. Once the molten metal or substance solidifies, the end product with the same shape of the mould or die is formed. The end product is then removed from the mould or die. Mould or die casting is particularly suitable for series and mass production of components as the metal moulds or dies can reused for all of the same components.
Machining	Machining generally involves the use of advanced computer numerical control ("CNC") machines to produce high-precision parts or components, of which the fabricated parts have manufacturing tolerances as low as one to five micrometre. Advanced CNC machines are also capable of multi-axis machining, in which machining tools can move in four or more directions to manufacture complex parts and components. This has greatly expanded the range of products that can be produced. Examples of precision parts or components that can be manufactured using CNC machines include shafts, pins, brushes, jigs and parts found in hard disk drives.
Metal casting	This segment includes foundries, die casting, magnesium injection moulding (Thixomoulding©) and investment casting. In foundries, metal is melted into liquid form and is subsequently poured into a mould to produce a specific metal part or component. Die casting involves a process whereby molten metal is injected into a mould or die at high pressure to form a casting of the same shape of the mould used. Sand casting involves pouring molten metal into a mould created by compacting sand around a pattern or model of the final product (the pattern is removed after the sand is compacted to allow molten metal to be poured into the mould). Investment casting involves creating a three dimensional ("3D") wax version of the final product and subsequently dipping the wax product into a ceramic suspension that hardens over the wax structure. The ceramic is heated to remove the wax, thus creating a ceramic mould. Molten metal is poured into the mould, and upon cooling down, the ceramic mould is destroyed to remove the metal casting.
Metal stamping	Metal stamping involves producing stamped metal parts from sheet metal. In particular, stamped metal parts are largely used in the electrical and electronics ("E&E"), machinery and equipment ("M&E") as well as automotive industries.
Surface engineering	Surface engineering refers to a wide range of technologies (generally via a plating process) that are used to modify the surface properties of metallic or non-metallic components for both decorative and/or functional purposes. Examples of surface engineering include improving corrosion resistance to prolong component life or providing special properties such as non-stick surfaces.
Heat treatment	Heat treating involves the heating and cooling of metal to various temperatures to alter its physical and mechanical properties.
Forging	Forging generally involves applying physical force to alter the physical shape of a metal to a desired form. Forging is mainly used in the manufacturing iron and steel products.
Metal fabrication	Metal fabrication generally involves the process of creating metal structures from metal materials via cutting, bending, welding, machining, forming and assembly to create the final product. End products can range from small simple household items to large complex metal structures used in the construction industry or on oil drilling platforms.

Sources: MIDA and Protégé Associates

The ESI produces and supplies intermediate metal products to both the M&E industry as well as to other end-user markets. These intermediate metal products are utilised in the production of various finished products by both these end-user markets. The relationship between the ESI and its user industries are depicted in Figure 2.

Figure 2: ESI and User Industries



Source: Protégé Associates

The M&E industry can be segmented into power generating M&E, metalworking machinery, specialised process M&E, and general industrial M&E components and parts. The M&E industry utilises intermediate metal products in the production of various machinery and equipment. These machinery and equipment are in turn, supplied to customers such as the automotive, aerospace, E&E, and oil and gas industries.

Other users of the intermediate metal products produced by the ESI include semiconductor, life science and medical technology, E&E, computer and computer peripherals, oil and gas, automotive, aerospace and telecommunications industries.

2.0 Overview of the M&E Industry and Selected End-User Markets

2.1 Overview of the M&E Industry in Malaysia

At present, Malaysia still relies on imports of M&E to fulfil local demand. This can be seen from the increasing value of M&E imports, which rose from RM54.57 billion in 2013 to RM69.64 billion in 2019, representing a compound annual growth rate ("CAGR") of 4.2% over the period. This figure fell to RM59.69 billion in 2020 due to the coronavirus ("COVID-19") pandemic disrupting global economic activities. The local M&E industry is expected to recover in 2021, with imports in the first 9 months of the year reaching RM49.40 billion, up from RM44.04 billion in the previous corresponding period. Malaysia mainly sources imported M&E from countries such as the United States ("US"), Japan, Singapore, China, Thailand and Germany.

Malaysia has also been increasing exports of M&E over the years. Malaysian exports of M&E stood at RM27.07 billion in 2013 and grew to RM41.60 billion in 2019, expanding at a CAGR of 7.3%. Similarly, due to the effects of COVID-19, M&E exports fell in 2020 to RM39.37 billion. For the first 9 months in

2021, M&E exports reached RM35.24 billion, up from RM28.82 billion in the last corresponding period. Main export destinations of Malaysian M&E include Singapore, the US, Germany, the United Kingdom, Indonesia, Thailand, Hong Kong and Australia. Due to its crucial part in driving Malaysia's economic and technological development and advancement, continuous investment has been poured into the local M&E industry. A total of 87 M&E projects worth RM6.7 billion were approved in 2020. While the number of approved projects during 2020 is less than the 99 projects approved in 2019, the value is a significant increase of over the RM3.6 billion in 2019.

Going forward, the M&E industry in Malaysia is expected to continue growing in tandem with the expansion of its end-user markets. While the global manufacturing industry is expected to remain subdued in the immediate term due to the negative impact from COVID-19 and the on-going trade protectionism, growth is expected to pick up in the near term once the pandemic is brought under control. Expansion in the manufacturing sector is likely to lead to investment in production expansion or improvement, which translates into higher demand for M&E in Malaysia.

2.2 Overview of the Global Semiconductor Industry

There has been an increase in demand for semiconductor, supported by increased usage of semiconductor in both traditional and non-traditional industries. While there has been a reduction in demand for semiconductor in 2019 due to several factors including the on-going global trade unrest as well as cyclicality in product pricing, demand has recovered in 2020. Global sales of semiconductors was valued at United States Dollar ("USD") 412.31 billion in 2019 and increased to USD440.39 billion in 2020, representing an increase of 6.8%.

The global semiconductor industry is projected to expand as ever-increasing number of E&E devices are being produced with embedded semiconductor technology. The continued evolution in technologies is expected to lead to introduction of new electronic devices and contribute to a higher demand for semiconductors.

The world is currently facing a shortage in semiconductors, in which the shortage of integrated circuits ("ICs") has led to production disruptions in the global automotive as well consumer electronics industries. The shortage has also led to increased bookings for semiconductor by consumers to secure parts for production of end-products. Going into 2021, the global semiconductor industry is forecast to reach USD550.88 billion.

2.3 Overview of the Global Life Sciences and Medical Technology Industry

Life sciences refer to the scientific study of organisms, including microorganisms, fauna and flora, as well as human beings. Medical technology, on the other hand, refers to the application of knowledge in medical sciences to develop products and services to improve the healthcare sector, in particular in the field of diagnostics and treatment. The development of the life sciences industry often goes hand in hand with the medical technology industry, due to similarities in their fundamental drives, namely an aging population as well as the prevalence of chronic disease. Presently, the medical technology industry is focus mainly on improving existing technologies by incorporating new technologies into consumer-oriented medical devices and healthcare equipment. This too is the main aim of life sciences companies. As such, the innovation in the life science and medical technology industry has manifested in many new products, ranging from the invention of new medical devices such as needle-free diabetes care to surgical robot for precise operations.

The outlook of the life sciences and medical technology industry is expected to remain bright, supported by an ageing population and healthcare reforms requiring increased need for healthcare and medical products. The United Nation has estimated that there were 727 million persons aged 65 years and over in the world in 2020. This figure is projected to double to 1.5 billion in 2050.

2.4 Overview of the Global Instrumentation Industry

Instrumentation refers to test and measurement equipment that is used to measure, analyse, test and record electrical data. The equipment generates electrical signals and capture responses from the devices being tested in order to test for any faults and to ensure that the device is functioning properly. Common test and measurement equipment include oscilloscopes, frequency counters, and spectrum analysers.

Significant improvements in technology and industrialisation are key factors in the growth of the instrumentation industry, as test and measurement equipment are widely used to test for performance and for defects during manufacturing of semiconductors and consumer electronics as well as during regular maintenance of aircrafts. The outlook of the instrumentation industry moving forward is anticipated to remain positive in light of its wide range of end-users and technological advancements such as 5G and the Internet of Things ("IoT"). In 2020, the industry was valued at USD24.3 billion. The industry is anticipated to grow by a CAGR of 3.7% from USD26.0 billion in 2021 to reach USD30.1 billion in 2025.

2.5 Overview of the Global Aerospace Industry

The aerospace industry refers to the research and development and manufacturing of aircrafts, including commercial and military aircrafts, and other related aviation machinery and equipment. Aerospace systems are complex and precise and the finished products can be made up of numerous components and piece-parts. It is also a highly-competitive industry as a result of technological progress.

The aerospace industry endured a difficult year in 2020 as the COVID-19 pandemic led to a decline in the commercial aerospace sector due to significantly decreased passenger traffic. As a result, the industry declined from USD342.4 billion in 2019 to USD332.3 billion in 2020. However, on-going global recovery from COVID-19 and continued spending on the military aerospace sector is expected to help the industry rebound moving forward. Nevertheless, the outlook of the aerospace industry is expected to be positive in the future as the industry continues to improve on existing systems to produce more technologically advanced aircrafts. As such, the industry is expected to recover and grow at a CAGR of 5.0% from USD343.3 billion 2021 to reach USD417.3 billion in 2025.

3.0 Overview of the ESI in Malaysia

The Malaysian ESI is reliant on export demand as the industry exports products to a wide range of end-user markets, including semiconductor, life science and medical technology as well as M&E. At the same time, growth in the industry as a whole generally follows cyclical trends in tandem with the fluctuation in global economic growth and volatile foreign currency, in particular the USD which tends to affect export demand.

The cyclical growth trend of the ESI industry can also be partly attributed to the cyclical nature of technology-based end-user markets, notably the semiconductor industry. The constant introduction of new or improved E&E devices (which mainly consist of semiconductors) has resulted in older technology becoming obsolete at a faster pace. This has resulted in the depreciation of prices of older model products to remain competitive in the marketplace. This downward pressure is passed through the entire value chain of the semiconductor industry, including the ESI which supplies various parts and components.

The estimated market size (in terms of sales value of manufactured products in Malaysia) and growth forecast of the ESI in Malaysia is shown in Figure 3.

Figure 3: Estimated Market Size (in terms of sales value of manufactured products in Malaysia) and Growth Forecast of the ESI in Malaysia, 2019-2025

Year	Market Size (RM billion)	Growth Rate (%)
2019	7.93	-
2020	6.23	-21.4%
2021	7.24	16.1%

Year	Market Size (RM billion)	Growth Rate (%)
2022	7.93	9.6%
2023	8.59	8.3%
2024	9.34	8.8%
2025	10.16	8.8%

Notes:

1. *CAGR (2021-2025) (base year of 2020): 10.3%;*
2. *All figures are rounded;*
3. *Figures from 2021 to 2025 are projection.*
4. *The estimated market size and growth forecast exclude sales of products from metal fabrication activities which range from simple household items to large-scale metal fabricated structures for skyscrapers and oil drilling platform.*

Source: Protégé Associates

The Malaysian ESI has been affected by the growing trend of protectionism (the governmental actions and policies of protecting its domestic industries from foreign competition through the implementation of tariff, import quotas, products standards or government subsidies) by various countries, notably the trade wars between the US and China and Europe. The trade tension between the countries has caused disruptions in the global supply chain and trading activities, leading to downside risk to the global economy. This has been compounded by the COVID-19 pandemic which had further impacted the global economy. In order to curb the spread of COVID-19, governments around the world, including Malaysia, have imposed multiple travel and movement restrictions. This has affected the global supply chain and led to shortage of supplies, delays from suppliers to customers, and an increase of raw material prices and logistic costs. As the end-user markets of the ESI in Malaysia are part of the global supply chain, they are sensitive to economic cycles and their performance is affected by the current conditions in the global economy. As such, any adverse impact on the global economy, such as trade protectionism policies and pandemics, is likely to have a negative impact on the Malaysian ESI.

In the short term (2021-2022), growth of the ESI is likely to be affected by the global economic outlook for 2021 and 2022. The International Monetary Fund ("IMF") is projecting the global economy to register a growth of 5.9% in 2021 and 4.9% in 2022. The growing vaccination rate is expected to underpin global economic recovery, which will promote the recovery of the ESI in Malaysia.

In the medium to long term (2023-2025) the ESI in Malaysia is likely to experience cyclical growth due to fluctuations in the global economy and a volatile foreign currency exchange that are expected to continue impacting the export demand for the intermediate metal products from the ESI in Malaysia. Growth of the ESI is likely to be driven by factors such as technological advancements, strong government support towards the M&E industry and end-user markets, the global ageing population. The ESI in Malaysia is expected to grow from RM7.24 billion in 2021 to RM10.16 billion in 2025, at a CAGR of 10.3% for the period.

3.1 Competitive Analysis

The ESI in Malaysia can be characterised by a highly competitive landscape whereby industry players compete fiercely against one another to gain market share. These is an estimated of approximately 2,000 market players (Source: MIDA) comprising of domestic players and foreign companies establishing manufacturing bases in Malaysia.

Coraza is an engineering support services provider principally involved in the manufacturing of sheet metal parts and precision machined components. For the purpose of this report, Protégé Associates has used the following criteria when selecting industry players in Malaysia for comparison with Coraza:

- Involved in the production of sheet metal parts and precision machined components;
- Cater to semiconductor/E&E as well as the life science and medical technology end-user markets; and
- Registered an annual turnover of between RM80 million and RM250 million based on the latest publicly available financial information (The threshold is selected based on Protégé Associates' study on the list of companies in the ESI in Malaysia and their financials).

The above criteria are used to narrow down the list of industry players that can be selected for comparison with Coraza. The criteria are used in order to select industry players that are deemed to be more similar to Coraza in terms of upcoming revenue, type of products and principal activities. After taking into consideration the above criteria, Protégé Associates has selected five industry players namely Alpha Precision Turning and Engineering Sdn Bhd ("Alpha"), Frencken Mechatronics (M) Sdn Bhd ("Frencken"), Kobay Technology Berhad ("Kobay Technology"), Synturn (M) Sdn Bhd ("Synturn") and UWC Berhad ("UWC") for comparison purposes. It needs to be highlighted that the list of industry players used for comparison purpose is not exhaustive. These market players cater to a wide range of end-user markets and may not entirely be the same as Coraza.

Alpha Precision Turning and Engineering Sdn Bhd

Alpha is principally involved in the manufacture and sale of engineering and precision metal turned parts. Alpha's end-user markets include the E&E, life science and medical technology, aerospace, automotive, oil and gas as well as the textile machinery industries.

Frencken Mechatronics (M) Sdn Bhd

Frencken is principally involved in the manufacture of machined parts and components for the electrical and electronics industries, semiconductor industrial machinery equipment, aerospace industry, medical equipment industry, environmental equipment, professional machines and other solar energy equipment and machineries.

Kobay Technology Berhad

Kobay is currently listed on the Main Market of Bursa Malaysia Securities Berhad. It is an investment holding company while principal activities of its subsidiaries include manufacture of metal works and structures, modules and parts for oil and gas production and extraction equipment, manufacture of semiconductor assembly and testing equipment, manufacture of precision moulds and parts, precision plating and surface treatment and manufacture of precision metal stamping, sheet metal and die casting parts.

Synturn (M) Sdn Bhd

Synturn is principally involved in the manufacturing of precision machine parts and other related materials. Synturn's end-user markets include the imaging and printing, domestic appliances, consumer electronics, data storage, machinery, automotive systems and telecommunications industries.

UWC Berhad

UWC is currently listed on the Main Market of Bursa Malaysia Securities Berhad. It is an investment holding company while principal activities of its subsidiaries include provision of precision sheet metal fabrication and value-added assembly services and provision of precision machined components. UWC's end-user markets include the semiconductor, life sciences and medical technology, telecommunications and M&E industries.

Figure 4: Comparison between Coraza and Selected Industry Players in the ESI in Malaysia

Indicator	Coraza	Alpha	Frencken	Kobay	Synturn	UWC
Information from FYE	31 December 2020	31 December 2020	31 December 2020	30 June 2021	30 June 2021	31 July 2020
Revenue (RM'000)	83,686	60,663	214,436	156,991[3]	221,236	219,050
Profit/(loss) before Tax (RM'000)	10,500	(3,472)	13,202	35,383	43,102	72,629
Profit/(loss) after Tax (RM'000)	8,016	(4,672)	13,066	26,933	38,451	57,764
Profit before Tax Margin[1] (%)	12.5	-5.7	6.2	22.5	19.5	33.2

Indicator	Coraza	Alpha	Frencken	Kobay	Synturn	UWC
Profit after Tax Margin[2] (%)	9.6	-7.7	6.1	17.2	17.4	26.4

Notes:

1. *The above figures (which are based on the latest available audited financial information) only provide an indication and are not considered directly comparable as not all companies carry out activities which are completely similar to each other or in the same geographical area;*
2. *The list of industry players is not exhaustive;*

[1] Profit before Tax Margin = Profit before Tax / Revenue
[2] Profit after Tax Margin = Profit after Tax / Revenue
[3] Includes revenue generated from property development division of RM14.1 million
Sources: Coraza, Companies Commission of Malaysia, Annual Reports of Kobay and UWC, and Protégé Associates

3.2 Coraza's Market Share Analysis

For FYE 31 December 2020, Coraza generated revenue of RM83.7 million, equivalent to 1.3% share of the total size of the ESI in Malaysia of RM6.23 billion in 2020. This is based on Coraza's revenue of RM83.7 million against the market size (in terms of sales value of manufactured products in Malaysia) of the ESI in Malaysia of RM6.23 billion in 2020.

4.0 Demand Conditions

Figure 5: Demand Conditions Affecting the ESI in Malaysia, 2021-2025

Impact	Demand Conditions	Short-Term	Medium-Term	Long-Term
		2021-2022	2023-2024	2025
+	Technological Advancement	High	High	High
+	Strong Government Support towards the M&E Industry and End-User Markets	High	High	Medium
+	Global Ageing Population and Healthcare Reforms	Low	Low	Low
-	Trade Protectionism by Major Economies	Medium	Medium	Low
-	COVID-19 Disrupting Global Supply Chain	Medium	Low	Low

Source: Protégé Associates

Technological Advancement

The advancement in technology has led to an increasing amount of E&E components being incorporated into both traditional and non-traditional industries. As the ESI is heavily reliant on the performance and growth of its end-user markets, the industry is expected to benefit from the rapid development of technological trends which are expected to drive demand for semiconductor and other E&E products. Some of the key technological trends driving the expansion of the semiconductor industry are detailed below.

Invention of new technologies

Growth in the semiconductor industry is expected to be bolstered by the creation of new and innovative electronic devices. The introduction of augmented reality ("AR"), virtual reality ("VR") and 3D printing in the recent years is expected to spur the development of related new electronic devices such as AR glasses, VR headsets and 3D printing machines.

Advancement of telecommunication technologies

The development of more advanced telecommunication technologies has led to an increased usage of ICs used in telecommunication devices and transmission infrastructure. As such, this development has also spurred the innovation of semiconductor products to support growth of the telecommunication industry. One of the latest telecommunication technologies cater to the development of the fifth-generation wireless broadband technology ("5G") that provides faster speed and wider coverage. The 5G technology is expected to have a greater number of multiple input and output streams, and is set to have a higher data transmission rate than the present fourth-generation wireless broadband technology. As such, the development of more advanced semiconductor technologies is required to support the greater data transmission rate as well the expansion in the input and output streams in preparation of the incoming 5G technology.

Internet of Things

The IoT refers to a network of physical objects that are made able to communicate with one another through the use of electronics, software, sensors as well as the network connectivity embedded within them. The growing prominence of the IoT has led to increasing usage of sensors and semiconductors in both consumer and industrial products, ranging from cloud computing, drone cameras, smart home devices, wearable technology, to smart manufacturing where manufacturing equipment are connected to each other through a network system.

Internet of Medical Things ("IoMT")

Along with an ageing global population, new applications in life science and medical technology have been constantly being developed to ensure the health and wellbeing of human beings. In particular, the adoption of IoMT in medical devices to monitor a patient's health condition using embedded connectivity and sensor technology has been one of the new and upcoming trends within the healthcare industry. The use of IoMT devices also provides healthcare providers with the necessary data required to take immediate health actions or detect health issues at an early stage.

Strong Government Support towards the M&E Industry and End-User Markets

The demand for intermediate metal products manufactured by the ESI in Malaysia is mainly driven by the local M&E industry. The Malaysian M&E industry serves as a catalyst for the country's transition into a high-technology nation, due to its linkages to various important economic sectors such as the manufacturing, construction and services industries. As such, strong government support has been provided to the industry, as shown by its inclusion into the Third Industrial Master Plan ("IMP3") to promote growth.

At the same time, government support has been instrumental to the development of the local E&E industry. Any development in the E&E industry can only serve to benefit its supporting semiconductor industry. As the E&E industry has been identified as one of the most important sectors contributing to the Malaysian economy, it has been named as one of the National Key Economic Areas ("NKEAs") under the Economic Transformation Programme. Furthermore, under the Twelfth Malaysia Plan ("12MP"), the Government is set on accelerating the development of eight strategic and high impact industries and activities, which includes the local E&E industry. In particular, the focus will be on boosting the E&E industry to move up the value chain, whereby industry players will be encouraged to adopt advanced technologies and produce more sophisticated products. To achieve a more comprehensive ecosystem to ensure the sustainable development of the E&E industry, a national E&E roadmap will also be formulated to provide strategic direction for the industry. As such, the local E&E industry can look forward to prioritised investment and policy support from the Government for its continuing development.

Malaysia is also committed to improving healthcare delivery standards to provide world-class medical products and technologies. The Government established the Medical Device Investment Advisory Panel ("MDIAP") to assist the industry's growth and development, by providing strategic initiatives to promote the growth of the medical device industry in Malaysia.

The Government also regards the aerospace industry as one the key industries that can transform the country into a high-technology nation and contribute to the overall Malaysian economy. To ensure growth of the aerospace industry, the Government has launched the Malaysian Aerospace Industry Blueprint 2030 with a vision for Malaysia to be a leading South East Asian nation in aerospace by 2030 through various initiatives and become an integral part of the global aerospace industry.

Global Ageing Population and Healthcare Reforms

With a global ageing population, demand for healthcare and other associated spending has been on the rise. Healthcare reforms are also seen across the globe to provide better healthcare services for the general population. At present, the population's access to healthcare facilities and treatment varies widely around the globe, with poor countries seeking basic infrastructure such as clean water and sanitation, while developed economies have abundant hospitals but struggle with cost containment. With an increasing older demography coupled with more healthcare reforms, demand for healthcare is likely to increase and hence driving more demand for life science and medical technology products. This will in turn drive demand for the ESI in Malaysia.

Trade Protectionism by Major Economies

There has been a recent rising trend in trade protectionism, led by major economies, notably the US, China and the European Union. The trend of trade protectionism has the potential to adversely impact global trading activities, posing a downside risk to global economic growth. According to the IMF, the protectionism measures are estimated to cost the global economy USD430.0 billion lost in gross domestic product ("GDP") or lower global growth as much as 0.5% by 2020. Furthermore, impact of the downside risk may increase if the uncertainties over trade protectionism are prolonged.

In Malaysia, many of the end-user markets of the ESI are sensitive to economic cycles and are subject to the conditions of the global economy. As such, the trade protectionism by major economies is expected to adversely affect the demand for end-user market products, and in turn demand for intermediate metal products from the ESI in Malaysia.

COVID-19 Disrupting Global Supply Chain

With the on-going COVID-19 pandemic still unable to be brought under control, the global economy saw a contraction of 3.1% in 2020. In particular, advanced economies contracted by 4.5% while emerging markets and developing nations fell by 2.1% during the year. According to the IMF, while the index for industrial production had recovered towards the end of 2020, the sharp decline in industrial production during the year had led to an overall weaker performance as compared to the previous year. As a supporting industry to the manufacturing sector, the decline in industrial production across the world is expected to slow the overall demand for ESI in Malaysia. However, the impact of the COVID-19 is expected to diminish over time as the pandemic is brought under control with the arrival of COVID-19 vaccines in 2021.

5.0 Supply Conditions

Figure 6: Supply Conditions Affecting the ESI in Malaysia, 2021-2025

Impact	Supply Conditions	Short-Term	Medium-Term	Long-Term
		2021-2022	2023-2024	2025
+	Expansion within the ESI	High	High	High
+	Growing Sophistication of Manufacturing Technology	High	High	High
+	Support from the Government	High	High	High
-	Downward Pricing Pressure from Customers	Medium	Medium	Medium

Source: Protégé Associates

Expansion within the ESI

In order to remain competitive in the global marketplace, it is crucial for market players to continuously upgrade production facilities as well as invest in the latest manufacturing technologies to be able to meet the expectations of end-users. On top of that, market players may also further strengthen their competitive advantage by offering total manufacturing solutions and integrated services or even provide niche segment products that require additional design and development capabilities to meet the demands of clients.

Growing Sophistication of Manufacturing Technology

Within the manufacturing sector, the advancement in technostructure facilities and resources is a strong growth factor. Technostructure facilities and resources here include the various state-of-the-art machine and tools, the use of computer system along with advanced computer-aided design and other related design and engineering software, R&D facilities, quality control facilities, etc. The advancement of the technostructure allows the manufacturing sector to produce end-products with higher precision and minimise human errors. This trend also applies to the ESI in Malaysia.

Support from the Government

Being a vital part of the larger M&E industry for metal fabrication services and parts and components supply, the ESI is also included in the IMP3 in order to catalyse future growth of the M&E industry. Measures introduced by the government include special support programmes in the form of business advisory services and other assistance, which are expected to drive the growth of the ESI in Malaysia.

Downward Pricing Pressure from Customers

The ESI faces constant challenges from downward pricing pressure from technology-based end-user markets, notably the semiconductor industry. The cyclical nature of the semiconductor industry characterised with frequent introduction of more advanced or improved products have resulted in older technology becoming obsolete at a faster pace. This has resulted in the price depreciation of existing products in order to remain competitive in the marketplace. The downward pricing pressure is passed through to the entire value chain of the semiconductor industry, including the ESI which supplies various parts and components. As such, ESI players are forced to lower their margins or seek alternative ways to reduce production cost in order to fulfil orders from customers while maintaining financially sound.

6.0 Prospect and Outlook of the ESI in Malaysia

The market size (measured by sales value of manufactured products in Malaysia) of the ESI in Malaysia was valued at RM6.23 billion in 2020. Going forward, the Malaysian ESI is expected to undergo mid-to-high single digit annual growth, supported technological advancement as well as expansion in end-user markets. In particular, the global semiconductor market is set to benefit from more E&E components being incorporated into both emerging and traditional industries. The global semiconductor industry is expected to expand from USD440.39 billion in 2020 to USD550.88 billion in 2021. Other drivers of the global semiconductor industry involve the advancement in telecommunication technology such as the rollout of 5G technology and the increasing adoption of IoT and IoMT, in which both will boost demand for semiconductors. The ESI has also been increasingly used in the life sciences and medical technology, instrumentation and aerospace industries. These industries continue to require precise components and structures for usage in the production of medical devices and equipment, test equipment and aerospace devices and equipment. The on-going global recovery from COVID-19 and continued spending is expected to help these industries rebound moving forward.

Closer to home, the local M&E industry is an important end-user of the Malaysian ESI. The local M&E industry is a crucial enabling industry for the local manufacturing industry. While the local manufacturing industry is expected to be subdued in the immediate-term due to the COVID-19 pandemic and on-going trade protectionism, growth is expected to resume in the near term. This will rejuvenate the local M&E industry and translate to higher demand for engineering supporting services. Protégé Associates has projected the ESI in Malaysia to expand by a CAGR of 10.3% from RM7.24 billion in 2021 to RM10.16 billion in 2025.

9. RISK FACTORS

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

9.1 RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS

9.1.1 We are dependent on our major customers

We are dependent on the following major customers:

(a) Customer J, who contributed 46.1%, 37.1%, 44.3% and 35.5% of our revenue for FYE 2018, 2019, 2020 and FPE 2021 respectively. We primarily provide Customer J with products for the semiconductor, instrumentation, and medical & life sciences industries. They have been our customer since 2008.

(b) Customer A, who contributed 15.8%, 15.4%, 12.3% and 12.4% of our revenue for FYE 2018, 2019, 2020 and FPE 2021 respectively. We primarily provide Customer A with products for the medical & life sciences industry. They have been our customer since 2002.

(c) Customer P, who contributed 14.9%, 23.3%, 19.2% and 18.6% of our revenue for FYE 2018, 2019, 2020 and FPE 2021 respectively. We primarily provide Customer P with products for the semiconductor, instrumentation, medical & life sciences, and aerospace industries. They have been our customer since 2005.

Although we enjoy a good working relationship with our major customers, there is no assurance that we will be able to retain these customers or maintain or increase the level of business activity that we have with them. It is an industry norm to not have long term contracts with our customers, and it is not feasible to enter into long term contracts in view that our Group's services cater for a high variety of customised products with lower volume. We may also be unable to secure new customers in a timely manner in the event that we do not retain our major customers. Any adverse changes to the business relationship between our Group and our major customers such as cancellation of orders or a termination of the relationship may lead to a negative impact on our operations and financial performance.

9.1.2 We are dependent on our core team of engineers and skilled production workers

Our manufacturing activities are dependent on the supply of skilled workers, which form our core team of engineers and skilled production workers (comprising employees under the technical, executives, technicians and welders categories). Although we have automated machinery in our factory, we are still reliant on skilled production workers. We are also dependent on the supply of engineers who are involved in processes such as product design and development and programming of CNC machinery. In a tight skilled labour market, we face the risk of competing for our skilled workers among other companies involved in engineering supporting services. In the event that we are unable to retain or replace them, our business operations and financial performance may be negatively affected. Of our 643 employees as at LPD, we are dependent on a core team of 42 engineers (6.5%) and 20 skilled production workers (3.1%). Of this core team, 2 engineers are contractual employees, and the rest of the core team are permanent employees.

9.1.3 We are dependent on our Directors and key management

The success and achievements of our Group can be attributed to the efforts of our Directors and key management, who are directly involved in developing our business strategies and managing our operations. As such, we believe that the continued success of our Group is reliant on their performance and our ability to retain them. Additionally, we operate in an industry that is constantly growing and developing and it is important that we attract and retain knowledgeable key management who are able to keep abreast with the changes in our industry.

Our Executive Chairman and Managing Director have over 40 and 30 years of experience in the E&E industry respectively. They are supported by a team of key personnel which have over 20 years of relevant working experience in their respective fields.

Our Group has in place succession planning, and has also taken the necessary measures such as providing career development, fair and adequate compensation in order to attract and retain our Directors and key management. However, there is no assurance that we will be able to attract and retain such personnel. The loss of our Directors and key management, without suitable or timely replacements, may affect our business operations and our ability to compete with our competitors, thus affecting the financial performance of our Group.

9.1.4 We may face disruption in our business operations due to COVID-19

The COVID-19 pandemic has seen various national lockdowns as well as closed international borders and airspace in an effort to curb the spread of the virus, including Malaysia.

As our Group is involved in the supply chain of E&E products, we are considered an essential service provider and we received approval from MITI to continue operating during the various movement control periods, albeit with a lower capacity of staff. Despite operating at a lower capacity during the various MCO periods, we did not experience a significant negative impact on our production output nor did we experience a decrease demand from our customers for our services during FYE 2020 and FPE 2021.

We experienced disruptions to our supply chain as a result of the various lockdown measures as set out in Section 7.8.1. We briefly experienced delays in raw material supply due to travel restrictions and deferred approval from the relevant authority for non-essential businesses. Nonetheless, such disruptions were not material to our Group. We did not experience any delay of delivery of finished goods to our local customers as we carried out delivery of such goods using our own fleet of delivery trucks. On the contrary, we experienced only minor disruptions in the delivery of finished goods to our international customers. This was due mainly to difficulty in obtaining cargo space for air and sea freight. Despite this, we have not experienced a material disruption in delivering products to our customers as most of them are local or based in Singapore.

On 27 May 2021, we noticed an increasing incidence of employees testing positive for COVID-19, where 4 employees were tested positive over the past 7 days. We then conducted a plant-wide mass testing exercise, during which an additional 122 of our employees were tested positive for COVID-19. As a result, the MOH issued Coraza Systems a shutdown notice effective 31 May 2021. Upon a follow up check by MOH, we were able to resume our operations on 8 June 2021. As a result of the plant-wide testing, Coraza was part of the cluster known as Kluster Industri Bukit Panchor, Pulau Pinang, which has since ended.

However, if there is any tightening of restrictions in the future that may lead to closure of our factory again or further reduction in our workforce, there can be no assurance that our manufacturing activities will not be materially affected. We may be unable to fulfil our orders in a timely manner, which may lead to claims against our Group. This may then result in an adverse financial impact on our operations and financial performance.

Furthermore, although we have taken the necessary precautions against COVID-19, there can be no assurance that our employees will not contract the virus in the future. Should we experience another COVID-19 outbreak, the shortage of workers may affect our business operations and as a result may negatively affect our financial performance.

9.1.5 We are exposed to fluctuations in raw material prices

Just as other companies in the engineering supporting industry, we are also exposed to fluctuations in raw material prices. The raw materials used in our sheet metal fabrication and machining activities include LLM, aluminium, and cold rolled steel. LLM, aluminium and cold rolled steel contributed a combined total of 77.9%, 76.1%, 84.1% and 78.9% of our raw material purchases for FYE 2018, 2019, 2020 and FPE 2021 respectively. The prices of LLM, aluminium, and steel are affected by factors including but not limited to the supply and demand conditions.

During FPE 2021 and up to LPD, our raw materials costs for aluminium, stainless steel, cold steel and copper increased between 10% to 70%, depending on the type of materials. We are in the midst of requoting our selling prices to our customers to reflect the increased cost of raw materials. We have historically been able to pass down the increase of costs of raw materials to our customers. Other than passing on the increase in costs to our customers, we do not engage any other strategy to mitigate the fluctuation in raw material prices.

Moving forward, if the cost of our raw materials continue to increase, and we are unable to pass such increase to our customers, our margins may be affected which will adversely affect our Group's financial performance and operations.

9.1.6 We are exposed to fluctuation in foreign exchange

Our Group exports our products to various countries around the world including Singapore and the USA. For FYE 2018 to 2020 and FPE 2021, our export sales contributed 25.6%, 29.4%, 29.3% and 38.1% of our total revenue respectively. Our export revenue is mainly denominated in USD. In FPE 2021, our net financial assets denominated in USD amounted to RM20.1 million. Based on this amount, a fluctuation of 10% in RM against the USD will result in a fluctuation in our PBT by RM2.0 million depending on the direction of the fluctuation.

Currently, our Group practices natural hedging by maintaining the receipts from our overseas customers in a foreign currency account for payment to overseas suppliers. We do not have any formal hedging contracts to manage our foreign exchange risk. Moving forward, we intend to expand our presence in overseas markets, which may lead to a greater percentage of sales derived from the export market. We will constantly monitor and review fluctuations in foreign currency and may hedge against foreign currency fluctuations if our Group experiences a higher risk of it. However, there can be no assurances that fluctuations in foreign currency will not affect the revenue and earnings of our Group.

9.1.7 Disruptions to our manufacturing operations

The performance of our Group is reliant on the smooth and efficient running of our manufacturing activities. Our manufacturing activities are supported by our workforce and a wide range of machinery such as laser cutting and turret punching machines, CNC machines, bending machines, and welders. We take care to schedule regular maintenance of our machinery to ensure that they work optimally. However, our machinery may experience unexpected failures that may lead to unanticipated downtime and as a result, cause an interruption to our manufacturing operations. These disruptions may affect our production schedule and lead to a delay in provision of our products to our customers. We did not experience any unexpected failures which have had a material adverse effect on us. However, in the event of disruption to our manufacturing operations, our Group may experience an adverse effect on our business and financial performance.

9.1.8 We may experience delays in realising our future plans

We plan to construct a new factory in Nibong Tebal in 3 phases which will enable us to increase our production capacity and provide additional services to our customers in the future. The construction of the new factory within the specified time and budget is subject to various uncertainties as highlighted below:

(a) Our ability to obtain the necessary licences and approvals from the relevant authorities in order for us to construct and operate the new factory, including:

  (i) Approval for our building plan, layout plan, and earthworks plan amongst others;

  (ii) issuance of Certificate of Completion and Compliance; and

  (iii) issuance of a manufacturing licence from MITI;

(b) Delays in procuring new machinery or transferring our existing machinery to our new factory.

Any continued delays in realising our future plans as well as acquisition and subsequent relocation of new machinery will correspondingly delay our future business growth, which will affect our financial performance, as well as our competitiveness as customers' growing demands may not be met. Additionally, delays in the construction of our new factory may lead to higher than anticipated costs. As at LPD, during the process of obtaining authorities approval for the layout plan of Phase 1, our construction consultants and architect have re-estimated construction costs in view of anticipated increase in construction material costs. This has resulted in an increase of approximately RM3.9 million in overall construction costs of our factory, amounting to a total of RM19.7 million. In the event that construction is further delayed, we may be forced to use internally generated funds to pay for the additional costs, thus reducing our available working capital. We may also be forced to utilise additional bank borrowings, thus increasing our interest cost.

9.1.9 We are dependent on the validity of business agreements that govern our business relationships

As we do business with various MNC customers, such customers require the use of various agreements to govern their business relationships with us, such as purchasing agreements, inventory management agreements, non-disclosure agreements and master agreements. Such agreements are generally required to be in effect for the entire duration of the respective business relationships, and would also extend to and affect the way we conduct business with other parties, such as with our suppliers, and the manner in which disclosure is made in this Prospectus, which are affected by non-disclosure clauses in these agreements.

Our business and profitability are materially dependent on these agreements collectively for each customer, and we would unlikely be able to continue securing repeat orders with our customers without these agreements. Notwithstanding that these agreements have always been renewed, the violation of any clauses therein without remedy would result in the termination of the respective customers' relationship and will result in loss of revenue from these customers, which is a material adverse effect to our operations and profitability especially if it relates to our major customers.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We are reliant on the end-user markets of our customers

The business of our Group is dependent on the end-user markets of our customers. The end-user markets of our customers may be adversely affected by numerous factors such as political, economic, and regulatory risks; changes in technology; and decrease in demand for their products. A negative performance in the end-user markets of our customers may affect the demand for our products and may lead to an adverse impact on our business operations and financial performance.

9.2.2 We are subject to changes and advancements in technology

Our Group is principally involved in the production of precision metal products that are used across multiple industries. We are subject to changes and advancements in technology in the various industries that our customers are involved in. It is important for our Group to be able to design and develop new products and services and introduce them to our customers in a timely manner in order to meet their changing needs.

In the event that we are unable to anticipate the changes in technology and develop new products and services in a timely manner, we may be unable to retain our customers or attract new customer. Furthermore, undertaking D&D activities to anticipate changes in technology will incur expenses that may not be recouped if our D&D activities are unsuccessful. These may lead to an adverse effect on our earnings and financial performance.

9.2.3 We operate in a highly competitive market

The engineering supporting industry in Malaysia is highly competitive, with around 2,000 market players. Our Group may face further competition in the future as new companies enter the market or if our current competitors expand. New entrants into the market may be equipped with newer and more advanced technology and machinery. Our competitors may also have resources that enable them to conduct more sales and marketing activities, fund the development of their products and services, and adapt to newer technologies at a faster pace.

Although we strive to remain competitive in the industry, there can be no assurance that we will be able to compete successfully with other players in the industry which may affect our business operations and financial performance.

9.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES

9.3.1 There is no prior market for our Shares

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

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

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

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

(a) The selected investors fail to subscribe for their portion of our IPO Shares;

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

(c) We are unable to meet the public shareholding spread requirement set by Bursa Securities, whereby at least 25.0% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders each holding not less than 100 Shares upon the completion of our IPO and at the point of our Listing.

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

If our Listing is aborted and/or terminated, and our Shares have been allotted to the investors, a return of monies to the investors could only be achieved by way of cancellation of share capital as provided under Sections 116 or 117 of the Act and its related rules.

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

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

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

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

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

9.3.4 We are subject to political, economic, and regulatory risks in the markets which we operate

As our Group conducts business activities in Malaysia and various foreign countries, we are subject to political, economic, and regulatory conditions in those countries. Adverse changes in the aforementioned conditions such as changes in political leadership; risk of war; changes in government policies regarding taxation, import duties, and tariffs; methods of taxation; and changes in economic conditions could affect our business operations and lead to an adverse and material effect on our earnings and financial performance.

9.4 OTHER RISKS

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

Our Promoters will collectively hold approximately 67.5% of our enlarged share capital upon Listing. Because of the size of their shareholdings, our Promoters will have significant influence on the outcome of certain matters requiring the vote of shareholders unless they are required to abstain from voting by law and/or as required by the relevant authorities.

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

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

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

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10. RELATED PARTY TRANSACTIONS

10.1 RELATED PARTY TRANSACTIONS

Save for the Acquisition and as disclosed below, there were no transactions, existing and/or potential, entered or to be entered into by our Group which involve the interests, direct or indirect, of our Directors, substantial shareholders and/or persons connected with them which are material to our Group during FYE 2018 to 2020, FPE 2021 and up to LPD:

					Transaction value (Expense)/Income									
					FYE 2018		FYE 2019		FYE 2020		FPE 2021		1 July 2021 up to LPD	
Related party	**Transacting company in our Group**	**Interested person**	**Nature of relationship**	**Nature of transaction**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
STS	Coraza Systems	• Armour Holdings • Paul Heng Weng Seng • Liew Sow Ying • Lim Teik Hoe	STS is a wholly-owned subsidiary of Armour Holdings Paul Heng Weng Seng and Liew Sow Ying are Directors and substantial shareholders of Armour Holdings. They are also our Promoters and substantial shareholders Paul Heng Weng Seng and Lim Teik Hoe are our Directors Lim Teik Hoe is a person connected to Liew Sow Ying	• Finishing services by STS(7)	(751)	(1)1.8	(1,201)	(1)2.7	(2,113)	(1)3.4	(894)	(1)3.0	(1,410)	(1)3.8
				• Rental income received from STS(2)	45	(2)41.7	101	(2)100.0	81	(2)100.0	-	-	-	-
				• Disposal of machinery to STS	-	-	-	-	-	-	32	N/A	-	-

10. RELATED PARTY TRANSACTIONS *(Cont'd)*

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value (Expense)/Income									
					FYE 2018		FYE 2019		FYE 2020		FPE 2021		1 July 2021 up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Armour Holdings	Coraza Systems	• Paul Heng Weng Seng • Liew Sow Ying • Lim Teik Hoe	Paul Heng Weng Seng and Liew Sow Ying are Directors and substantial shareholders of Armour Holdings. They are also our Promoters, substantial shareholders Paul Heng Weng Seng and Lim Teik Hoe are our Directors Lim Teik Hoe is a person connected to Liew Sow Ying	Disposal of property to Armour Holdings[3]	-	-	-	-	2,800	N/A	-	-	-	-
Unigen Corporation	Coraza Systems	• Paul Heng Weng Seng	Paul Heng Weng Seng is a Director and shareholder of Unigen Corporation. He is also our Promoter, substantial shareholder and Director	Sales of fabricated parts to Unigen Corporation[7]	-	-	89	[4]<0.1	722	[4]0.9	251	[4]0.6	307	[4]0.6
Unigen Vietnam Hanoi Co., Ltd	Coraza Systems	• Paul Heng Weng Seng	Paul Heng Weng Seng is a Director and shareholder of Unigen Vietnam Hanoi Co., Ltd. He is also our Promoter, substantial shareholder and Director	Sales of fabricated parts to Unigen Vietnam Hanoi Co., Ltd[7]	-	-	668	[4]1.1	-	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS *(Cont'd)*

Related party	Transacting company in our Group	Interested person	Nature of relationship	Nature of transaction	Transaction value (Expense)/Income									
					FYE 2018		FYE 2019		FYE 2020		FPE 2021		1 July 2021 up to LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Kalungan Prestij Sdn Bhd	Coraza Systems	• Lim Teik Hoe • Liew Sow Ying	Lim Teik Hoe and Liew Sow Ying are Directors and substantial shareholders of Kalungan Prestij Sdn Bhd. They are also our Promoters, substantial shareholders and Lim Teik Hoe is our Director	Rental of factory by Coraza Systems[7][8]	-	-	(2)	[1]<0.1	(24)	[1]<0.1	(12)	[1]<0.1	(10)	[1]<0.1
Fastrack Corporate Sdn Bhd ("**Fastrack**")	Coraza Systems	Chee Wai Hong[5]	Chee Wai Hong was a Director of Coraza Systems. He is also a substantial shareholder of Fastrack	Secretarial fee paid to Fastrack	(13)	[6]0.2	(6)	[6]0.1	(5)	<0.1	-	-	-	-
Allen Chee Ram ("**ACR**")	Coraza Systems	Chee Wai Hong[5]	Chee Wai Hong was a Director of Coraza Systems. He is also Managing Partner of ACR	Legal fee paid to ACR	(11)	[6]0.2	(16)	[6]0.3	(3)	<0.1	-	-	-	-

Notes:

N/A Not applicable

(1) Calculated based on our Group's cost of sales for each of the respective financial years/periods.

(2) Calculated based on our Group's rental income for each of the respective financial years/periods. The rental income is received from STS for renting a piece of industrial land as set out in note (3) at the monthly rental of RM6,800, for the latest tenancy period of 2 years from 1 October 2019 to 30 September 2021. However, the tenancy agreement has been terminated by Coraza Systems on 31 December 2020.

10. RELATED PARTY TRANSACTIONS *(Cont'd)*

(3) Being a piece of industrial land held under GM1536, Lot 4093, Mukim 07, Jalan Bukit Panchor, Daerah Seberang Perai Selatan, Negeri Pulau Pinang bearing assessment address at No. 14, Lorong Industri 5, Kawasan Industri Bukit Panchor, 14300 Nibong Tebal, Seberang Perai Selatan, Pulau Pinang together with 1½-storey detached factory erected thereon. The disposal consideration was arrived at based on the market value as appraised by an independent real estate valuer.

(4) Calculated based on our Group's revenue for each of the respective financial years/periods.

(5) Chee Wai Hong has resigned as Director of Coraza Systems on 1 January 2021.

(6) Calculated based on our Group's administrative expenses for each of the respective financial years/periods.

(7) Being recurrent transactions that may recur after Listing.

(8) The rental paid by Coraza Systems is for the factory located at No. 136, Jalan Suasa 7, Kawasan Industrial Taman Suasa, 09000 Kulim, Kedah rented from Kalungan Prestij Sdn Bhd, at the monthly rental of RM2,000 where the present tenancy is for one year from 1 December 2021 to 30 November 2022 with option to renew for another 1 year. The rental is at market rate and not more favourable than our other rental agreements, notwithstanding that the renewal terms allow for a 10% increase. In comparison, Coraza's other rented properties do not have a rental increment limit, save for 2 properties also with a 10% limit. Such rental limit terms are commonplace and are not unreasonable to be imposed.

Our Directors are of the view that all our related party transactions were conducted on an arm's length basis and on competitive commercial terms not more favourable to the related parties.

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10. RELATED PARTY TRANSACTIONS *(Cont'd)*

Moving forward, in order to ensure that related party transactions are undertaken on arm's length basis and on normal commercial terms, we have established the following procedures:

(a) Recurrent related party transactions

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

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

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

(b) Other related party transactions

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

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

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

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

For related party transactions that require shareholders' approval, the Directors, major shareholders and/or persons connected with such Director or major shareholder, which have any interest, direct or indirect, in the proposed related party transaction will abstain from deliberating and voting in respect of their direct and/or indirect shareholdings. Where a person connected with a Director or major shareholder has interest, direct or indirect, in any proposed related party transactions, the Director or major shareholder concerned will also abstain from deliberating and voting in respect of his direct and/or indirect shareholdings. The relevant Directors who are deemed interested or conflicted in such transactions shall also abstain from our Board deliberations and voting on the Board resolutions relating to these transactions.

10. RELATED PARTY TRANSACTIONS *(Cont'd)*

In addition, to safeguard the interest of our Group and our minority shareholders, and to mitigate any potential conflict of interest situation, our Audit Committee will, amongst others, supervise and monitor any related party transaction and the terms thereof and report to our Board for further action. If a member of our Audit Committee has an interest in any related party transaction, he is to abstain from participating in the review and approval process in relation to that transaction. Where necessary, our Board would make appropriate disclosures in our annual report with regard to any related party transaction entered into by us.

10.2 OTHER TRANSACTIONS

10.2.1 Transactions entered into that are unusual in their nature or conditions

There were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party for FYE 2018 to 2020, FPE 2021 and up to LPD.

10.2.2 Outstanding loans (including guarantees of any kind)

(a) Outstanding loans and/or balances

As at LPD, there are no outstanding loans made by our Group to/for the benefit of a related party or granted by the related parties for the benefit of our Group.

(b) Guarantees

Our Promoters, substantial shareholders and/or Directors, namely Paul Heng Weng Seng, Liew Sow Ying and Lim Teik Hoe, as well as Armour Holdings have jointly and severally provided personal guarantees for the banking facilities extended by Public Bank Berhad, Maybank Islamic Berhad and Malaysian Industrial Development Finance Berhad ("**Financiers**"). The guarantees are for the full amount of the facility.

Financiers	Type of Facilities	Outstanding balance and amount guaranteed as at LPD RM'000	Facility limit and amount guaranteed RM'000	Guarantors
Public Bank Berhad	3 facilities comprising term loan and trade financing	3,956	11,300	Liew Sow Ying Paul Heng Weng Seng
Maybank Islamic Berhad	4 Islamic trade line facilities	7,438	14,350	Paul Heng Weng Seng Lim Teik Hoe
Malaysian Industrial Development Finance Berhad	5 facilities comprising term loan and hire purchase	8,225	24,530	Paul Heng Weng Seng Liew Sow Ying
		19,619	**50,180**	

In conjunction with our Listing, we have applied to the Financiers to obtain a release and/or discharge of the guarantees by substituting the same with a corporate guarantee from our Company and/or other securities from our Group acceptable to the Financiers. Until such release and/or discharge are obtained from the respective Financiers, the aforesaid persons will continue to guarantee the banking facilities extended to our Group.

As at the date of this Prospectus, we have received conditional approvals from the Financiers to discharge the above guarantees by substituting the same with a corporate guarantee from our Company and/or other securities from our Group acceptable to the financial institutions. The Financiers have imposed conditions that the discharge is conditional upon the completion of the Listing and execution and perfection of a corporate guarantee by the Company and additionally, Public Bank Berhad requires Coraza Systems to ensure that there is no change to its board of directors.

10.2.3 Transactions entered into with M&A Securities

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

(a) Agreement dated 15 October 2020 between Coraza Systems and M&A Securities for the appointment of M&A Securities as Adviser, Sponsor, Underwriter and Placement Agent for our Listing; and

(b) Underwriting Agreement dated 30 November 2021 entered into between our Company and M&A Securities for the underwriting of 42,833,100 Issue Shares.

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11. CONFLICT OF INTEREST

11.1 INTEREST IN SIMILAR BUSINESS AND IN BUSINESSES OF OUR CLIENTS AND SUPPLIERS

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

Save as disclosed below, none of our Directors and/or substantial shareholders has interest in the business of our customers and suppliers as at LPD:

Name of company	Principal activities	Nature of interest
STS	Finishing services	• STS is a wholly-owned subsidiary of Armour Holdings • Paul Heng Weng Seng and Liew Sow Ying are Directors and substantial shareholders of Armour Holdings. They are also our Promoters and substantial shareholders • Paul Heng Weng Seng and Lim Teik Hoe are our Directors • Lim Teik Hoe is a person connected to Liew Sow Ying
Unigen Corporation and Unigen Vietnam Hanoi Co., Ltd	Manufacturer of industrial-focused memory modules and storage solutions	Paul Heng Weng Seng is a Director and shareholder of Unigen Corporation and Unigen Vietnam Hanoi Co., Ltd. He is also our Promoter, substantial shareholder and Director

STS principally provides finishing services such as plating, powder coating, surface finishing, masking, painting and polishing of metal products to various manufacturers, including sheet metal fabrication companies such as Coraza Systems. These finishing services are available to us through many sub-contractors. However, historically, STS was set up to provide us a quick solution for finishing services of its own. In comparison, our future plan of in-sourcing the finishing services to cater to aerospace industry is a plan to achieve a strategic advantage. This plan requires training of means and acquiring know-how, which is challenging to achieve in the long term with STS' existing set-up. As such, it will be more feasible to implement this plan anew in the Group.

Unigen Corporation is principally a manufacturer of industrial-focused memory modules and storage solutions primarily for cloud computing solutions. Unigen Vietnam Hanoi Co. Ltd is its manufacturing arm in Hanoi, Vietnam. Unigen Corporation is headquartered in Silicon Valley, California. The group's principal market is in USA (90%) and Asia (10%), primarily comprising customers of medium and large sized corporations from various industries such as networking, server, telecommunications, imaging, automotive, and medical devices. The scale of operation for Unigen Corporation is approximately 127,000 sq ft with 400 employees while its Vietnam operation is at 137,000 sq ft with 650 employees. Unigen Corporation has 1 common customer with Coraza, which was recommended to Coraza to supply fabricated metal parts. Transactions with this customer were at arms length. The said common customer is not a major customer of our Group.

11. CONFLICT OF INTEREST *(Cont'd)*

Our Group will remain focused in the provision of sheet metal fabrication and value-added sub-module assembly services, as well as the fabrication of precision machined components. We intend to venture into the provision of finishing services to cater for the aerospace industry. The provision of finishing services for the aerospace industry encompasses engineering and quality levels that exceed those of other industry segments, and therefore will also give Coraza Systems a competitive advantage to service the non-aerospace segments. This venture will enable Coraza Systems to in-source all its finishing services currently provided by the subcontractors, one of which includes STS, which is not able to provide surface treatment for the aerospace industry. STS mainly services semiconductor, instrumentation and E&E industry segments.

For avoidance of doubt, Coraza Systems' new finishing line is intended to serve only its internal production needs. We expect our transactions with STS to progressively decline after the completion of our finishing line in Phase 3 of our new factory, and eventually cease with our Group. Thereafter, STS will focus on providing finishing services to other customers, whose components are not manufactured through orders with Coraza Systems.

During FYE 2018 to 2020 and FPE 2021, Coraza Systems has dealt with:

(a) STS (as a subcontractor) for the finishing of metal products. The total value of Coraza Systems' transactions with STS were RM0.8 million for FYE 2018, RM1.2 million for FYE 2019, RM2.1 million for FYE 2020 and RM0.9 million for FPE 2021; and

(b) Unigen Corporation and Unigen Vietnam Hanoi Co., Ltd, both as our customers for sales of our fabricated parts. The total value of Coraza Systems' transactions with them were RM0.8 million for FYE 2019, RM0.7 million for FYE 2020 and RM0.3 million for FPE 2021.

Further details of our Group's transactions with the above parties can be found in Section 10.1.

Our Board (save for Paul Heng Weng Seng and Lim Teik Hoe, who are interested Directors) is of the view that the interests of our Directors and substantial shareholders in STS, Unigen Corporation, Unigen Vietnam Hanoi Co., Ltd and Armour Holdings do not give rise to a conflict of interest situation based on the following:

(a) Paul Heng Weng Seng and Liew Sow Ying are not involved in the day-to-day operations of STS which are managed by their management personnel, and they only attend the meeting of the board of directors in which they serve and accordingly discharge their principal responsibilities as directors of those companies. Separately, Armour Holdings is merely an investment company holding STS;

(b) The business activities of STS, the Unigen group of companies and Coraza Systems are different. STS provides finishing services which Coraza Systems does not provide, and is expected to progressively focus on other market segments upon our venture into the provision of finishing services for the aerospace industry. Unigen provides EMS for industrial-focused memory modules and storage solutions. These products uses metal enclosures, which requires sheet metal fabrication services from suppliers such as Coraza Systems;

(c) All the transactions carried out with STS, Unigen Corporation and Unigen Vietnam Hanoi Co., Ltd were on arm's length basis, on normal commercial terms which are not more favourable to our related parties than those generally available to the public, and are not to the detriment of our non-interested shareholders;

11. CONFLICT OF INTEREST *(Cont'd)*

(d) STS is not a major supplier of our Group and Unigen Corporation and Unigen Vietnam Hanoi Co., Ltd are not major customers of our Group, and we are not dependent on them for our business; and

(e) The value of our transactions with:

(i) STS represented 1.8% to 3.4% of our total cost of sales for FYE 2018 to 2020 and FPE 2021, and represented 14.7% to 26.8% of our total sub-contracted finishing costs for FYE 2018 to 2020 and FPE 2021; and

(ii) Unigen Corporation and Unigen Vietnam Hanoi Co., Ltd represented less than 0.1% to 1.1% of our total revenue for FYE 2018 to 2020 and FPE 2021.

Moving forward, we have established procedures for related party transactions to ensure that they are carried out on an arm's length basis, on normal commercial terms which are not more favourable to our related parties than those generally available to the public, and are not to the detriment of our non-interested shareholders. Please refer to our procedures as disclosed in Section 10.1.

It is our Director's fiduciary duty to avoid conflict, and they are required to attend courses which provide them guidelines on their fiduciary duties. In order to mitigate any possible conflict of interest situation in the future, our Directors will declare to our Nominating and Remuneration Committee and our Board their interests in other companies at the onset and as and when there are changes in their respective interests in companies outside our Group. Our Nominating and Remuneration Committee will then first evaluate if such Director's involvement gives rise to an actual or potential conflict of interest with our Group's business after the disclosure provided by such Director. After a determination has been made on whether there is an actual or potential conflict of interest of a Director, our Nominating and Remuneration Committee will then:

(a) Immediately inform our Audit Committee and Board of the conflict of interest situation;

(b) After deliberation with our Audit Committee, to make recommendations to our Board to direct the conflicted Director to:

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

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

In relation to (b)(ii) above, the conflicted Director and persons connected to him (if applicable) shall be absent from any Board discussion relating to the recommendation of our Nominating Committee and the conflicted Director and persons connected to him (if applicable) shall not vote or in any way attempt to influence the discussion of, or voting on, the matter at issue. The conflicted Director, may however at the request of the Chairman of our Board, be present at our Board meeting to answer any questions.

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

11. CONFLICT OF INTEREST *(Cont'd)*

Where there are related party transactions between our Group with our Directors (or person connected to them) or companies in which our Directors (or person connected to them) have an interest, our Audit Committee will, amongst others, supervise and monitor such related party transaction and the terms thereof and report to our Board for further action. Please refer to Section 10.1 for the procedures to be taken to ensure that related party transactions (if any) are undertaken on arm's length basis.

11.2 DECLARATIONS OF CONFLICT OF INTEREST BY OUR ADVISERS

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

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

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

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

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12. FINANCIAL INFORMATION

12.1 HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated on 30 November 2020 to facilitate our Listing, and we completed the Acquisition on 19 November 2021. Coraza Systems has been under the common control of our Promoters throughout FYE 2018 to 2020 as well as FPE 2021 and is regarded as a continuing entity.

Our historical financial statements for FYE 2018 to 2020 and FPE 2021 were prepared in accordance with MFRS and IFRS. The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results and cash flows.

12.1.1 Combined statements of comprehensive income

The following table sets out a summary of our combined statements of comprehensive income for FYE 2018 to 2020 and FPE 2020 and 2021 which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Accountants' Report set out in Sections 12.2 and 13 respectively.

	Audited			Unaudited	Audited
	FYE 2018	**FYE 2019**	**FYE 2020**	**FPE 2020**	**FPE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	56,023	58,594	83,686	43,282	43,195
Cost of sales	(42,481)	(43,875)	(62,364)	(30,951)	(30,118)
GP	**13,542**	**14,719**	**21,322**	**12,331**	**13,077**
Other income	977	608	2,388	901	898
Administrative expenses	(5,593)	(6,508)	(8,617)	(3,802)	(4,705)
Selling and distribution expenses	(3,549)	(3,932)	(4,078)	(2,228)	(1,795)
Profit from operations	**5,377**	**4,887**	**11,015**	**7,202**	**7,475**
Finance costs	(461)	(526)	(515)	(192)	(349)
PBT	**4,916**	**4,361**	**10,500**	**7,010**	**7,126**
Taxation	(1,465)	(944)	(2,484)	(1,682)	(1,714)
PAT/ Total comprehensive income	**3,451**	**3,417**	**8,016**	**5,328**	**5,412**
Adjusted EBIT (RM'000)(1)(2)	5,281	4,803	9,062	7,172	7,452
Adjusted EBITDA (RM'000)(1)(2)	7,575	7,451	11,963	8,520	9,029
GP margin (%)(3)	24.2	25.1	25.5	28.5	30.3
Pre-tax margin (%)(4)	8.8	7.4	10.3	16.2	16.5
After tax margin (%)(4)	6.2	5.8	7.5	12.3	12.5
Basic EPS (sen)(5)	1.11	1.10	2.03	1.72	1.74
Diluted EPS (sen)(6)	0.81	0.80	1.47	1.24	1.26

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Notes:

(1) Included in our other income in FYE 2020 is a gain from disposal of property which is non-recurring. Our adjusted PBT and PAT excluding the said other income in FYE 2020 are as follows:

	Audited			Unaudited	Audited
	FYE 2018	FYE 2019	FYE 2020	FPE 2020	FPE 2021
	RM'000	RM'000	RM'000	RM'000	RM'000
PBT	4,916	4,361	10,500	7,010	7,126
Less: Non-recurring other income	-	-	(1,877)	-	-
Adjusted PBT	4,916	4,361	8,623	7,010	7,126
Adjusted tax expenses[(a)]	(1,465)	(944)	(2,318)	(1,682)	(1,714)
Adjusted PAT	**3,451**	**3,417**	**6,305**	**5,328**	**5,412**

(a) After adjusting for the tax effect on the non-recurring other income, where relevant.

(2) EBIT and EBITDA are calculated as follows:

	Audited			Unaudited	Audited
	FYE 2018	FYE 2019	FYE 2020	FPE 2020	FPE 2021
	RM'000	RM'000	RM'000	RM'000	RM'000
Adjusted PAT[(a)]	3,451	3,417	6,305	5,328	5,412
Less:					
Interest income	(96)	(84)	(76)	(30)	(23)
Add:					
Interest expense	461	526	515	192	349
Taxation	1,465	944	2,318	1,682	1,714
EBIT	**5,281**	**4,803**	**9,062**	**7,172**	**7,452**
Add:					
Depreciation	2,294	2,648	2,901	1,348	1,577
EBITDA	**7,575**	**7,451**	**11,963**	**8,520**	**9,029**

(a) Based on the Adjusted PAT in Note (1) above.

(3) Calculated based on GP over revenue.

(4) Calculated based on adjusted PBT or adjusted PAT over revenue.

(5) Calculated based on adjusted PAT and share capital of 310,540,001 Shares in issue before Public Issue.

(6) Calculated based on adjusted PAT and enlarged share capital of 428,331,001 Shares after Public Issue.

12. FINANCIAL INFORMATION *(Cont'd)*

12.1.2 Combined statements of financial position

The following table sets out the combined statements of financial position of our Group as at 31 December 2018, 2019 and 2020 as well as 30 June 2021 which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Accountants' Report set out in Sections 12.2 and 13 respectively.

	Audited			
	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RM'000	RM'000	RM'000	RM'000
Non-current assets				
Property, plant and equipment	21,363	20,787	22,934	24,035
Right-of-use asset(1)	-	-	411	334
	21,363	20,787	23,345	24,369
Current assets				
Inventories	8,177	11,523	10,815	17,782
Trade receivables	13,354	16,562	18,421	22,510
Other receivables, deposits and prepayments	1,073	1,187	1,133	2,146
Tax recoverable	1,039	253	185	-
Cash and bank balances	737	4,509	5,555	4,056
	24,380	34,034	36,109	46,494
Total assets	**45,743**	**54,821**	**59,454**	**70,863**
Equity				
Share capital	-	-	*-	*-
Invested equity	2,500	2,500	2,500	2,500
Retained earnings	22,123	25,539	26,755	32,166
Total equity	24,623	28,039	29,255	34,666
Non-current liabilities				
Borrowings	7,351	9,814	8,436	10,321
Lease liability(1)	-	-	265	188
Deferred income(2)	2,466	2,130	1,794	1,626
Deferred tax liabilities	1,060	1,149	928	971
	10,877	13,093	11,423	13,106
Current liabilities				
Trade payables	5,191	6,854	5,599	8,850
Other payables and accruals	3,284	2,992	6,098	6,431
Refund liabilities(3)	-	75	195	195
Amount due to a director	-	-	3	3
Borrowings	1,768	3,768	6,732	7,382
Lease liability(1)	-	-	149	153
Tax payable	-	-	-	77
	10,243	13,689	18,776	23,091
Total liabilities	21,120	26,782	30,199	36,197
Total equity and liabilities	**45,743**	**54,821**	**59,454**	**70,863**

Notes:

* Negligible

(1) The adoption of MFRS 16 has no material financial impact to the combined financial statements of our Group save for a long-term lease of a premise entered into by our Group during FYE 2020 which warrants recognition on the combined statements of financial position.

(2) Our Group was awarded government grants from MIDA for the reimbursement of capital expenditure on modernisation of specified machinery and equipment. Deferred income is released to profit or loss over the periods to match the related cost which the grant is intended to compensate, on a systematic basis.

(3) Our Group provides retrospective volume rebates and prompt payment discounts to certain customers once the quantity of products sold during the period exceeds a threshold or when the customers make payment of outstanding invoices within a period specified in the contract. Rebates and discounts are offset against the transaction price. In this respect, our Group recognises a refund liability for expected future rebates.

12.1.3 Combined statements of cash flows

The following table sets out the combined statements of cash flows of our Group for FYE 2018 to 2020 and FPE 2021 which has been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Results of Operations and Financial Condition" and Accountants' Report set out in Sections 12.2 and 13 respectively.

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FPE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flows from operating activities				
PBT	4,916	4,361	10,500	7,126
Adjustments for:				
Depreciation of property, plant and equipment	2,294	2,648	2,850	1,500
Depreciation of right-of-use asset	-	-	51	77
Deferred income released	(561)	(336)	(336)	(168)
Gain on disposal of property, plant and equipment	(21)	(7)	(1,893)	(46)
Interest expense	461	526	515	349
Interest income	(96)	(84)	(76)	(23)
Unrealised (gain)/loss in foreign exchange	(187)	138	472	(661)
Operating profit before changes in working capital	6,806	7,246	12,083	8,154
Changes in working capital:				
(Increase)/Decrease in inventories	(781)	(3,346)	708	(6,967)
Increase in receivables	(138)	(3,450)	(2,284)	(4,089)
(Decrease)/Increase in payables	(2,609)	1,359	1,861	3,586
Increase in refund liabilities	-	75	120	-
Cash generated from operations	3,278	1,884	12,488	684
Income tax paid	(1,731)	(1,504)	(2,638)	(1,409)
Income tax refund	-	1,435	-	-

12. FINANCIAL INFORMATION *(Cont'd)*

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FPE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Interest paid	(461)	(526)	(508)	(340)
Net cash from/(used in) operating activities	**1,086**	**1,289**	**9,342**	**(1,065)**
Interest received	96	84	76	23
Proceeds from disposal of property, plant and equipment	21	7	2,816	78
Purchase of property, plant and equipment	(5,902)	(2,072)	(5,920)	(2,633)
Net cash used in investing activities	**(5,785)**	**(1,981)**	**(3,028)**	**(2,532)**
Cash flows from financing activities				
Proceed from issuance of share	-	-	*-	-
Grant received	2,250	-	-	-
Net drawdown of bankers' acceptance	452	1,686	2,828	137
Net (repayment)/drawdown of hire purchase loans	(597)	169	(407)	3,371
Net (repayment)/drawdown of term loans	(662)	2,585	(812)	(972)
Payment of lease liability	-	-	(55)	(83)
Changes in fixed deposit pledge to a licensed bank	-	(334)	(689)	(1,834)
Dividend paid	-	-	(6,800)	-
Net change in a director's account	-	-	3	-
Prepayment for listing expenses	-	-	-	(355)
Repayment of loan to former holding company	(3,041)	-	-	-
Net cash (used in)/from financing activities	**(1,598)**	**4,106**	**(5,932)**	**264**
Net (decrease)/increase in cash and cash equivalents	**(6,297)**	**3,414**	**382**	**(3,333)**
Cash and cash equivalents at beginning	**7,034**	**737**	**4,151**	**4,533**
Cash and cash equivalents at end	**737**	**4,151**	**4,533**	**1,200**

Note:

* Negligible

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

The following discussion and segmental analysis of our combined financial statements for FYE 2018 to 2020 and FPE 2021 should be read with the Accountants' Report included in Section 13.

12.2.1 Overview of our operations

(a) Principal activities

Our Group is principally involved in the fabrication of sheet metal and precision machined components, as well as the provision of related services, such as D&D and value-added sub-module assembly services.

Please refer to Section 7 for our Group's detailed business overview.

(b) Revenue

Our Group's revenue for the financial years/periods under review was derived from our fabrication of sheet metal and precision machining segment. Revenue is segmented between sheet metal fabrication and precision machining, as the process and costing of sheet metal fabrication and precision machining are different. These 2 segments have their own distinct range of processes. We also generate revenue from sub-modular assembly, which is quoted together with sheet metal fabrication. However, we do not segmentise the revenue between sub-modular and sheet metal fabrication assembly as the sub-modular assembly is generally an additional part to the overall sheet metal fabrication process, and generates smaller revenue compared to the rest of the process.

Revenue is recognised at a point in time when the transfer of control of the goods has been passed on to the customer, i.e. generally when the customer has acknowledged delivery of the goods. The amount of revenue recognised is adjusted for discounts and rebate given.

(c) Cost of sales

Our cost of sales comprises raw materials cost, direct labour cost and factory overheads:

(i) Raw materials

Our Group's direct raw materials mainly consist of LLM, which are various simpler materials used in sub-module assembly such as brackets, fasteners, hinges, rivets, washers as well as wiring and various electronic parts, and other base materials such as aluminium and stainless steel which are sourced from local and foreign suppliers.

(ii) Direct labour

Our direct labour comprises salaries, statutory contributions, wages and allowances for production workers which are employed directly by us.

(iii) Factory overhead

Factory overhead mainly includes depreciation of property, plant and equipment, subcontractors' costs, upkeep expenses, utilities charges and indirect staff cost relating to the production activities such as quality assurance, product development, store-keeping.

(d) Other income

Other income mainly comprises interest income, gain on disposal of property, plant and equipment, gain on foreign exchange and deferred income released as a result of the government grants received for reimbursement of capital expenditure on modernisation of specific machinery and equipment.

(e) Administrative expenses

Administrative expenses mainly consist of overheads incurred to maintain our operations such as staff costs, directors' remuneration, depreciation of property, plant and equipment, professional fees, upkeep expenses, stamp duty, insurance and road tax.

(f) Selling and distribution expenses

Selling and distribution expenses consist of sales and marketing expenses, carriage outward, travelling and accommodation, courier and freight charges.

(g) Finance cost

Finance cost comprises interest on our bank borrowings and lease liabilities.

(h) Recent developments

Save for the Acquisition and the disruptions to our operations arising from the COVID-19 pandemic (details as set out in Section 7.8.1), there were no other significant events subsequent to our audited combined financial statements for FPE 2021.

(i) Exceptional and extraordinary items and audit qualifications

There were no exceptional or extraordinary items during FYE 2018 to 2020 as well as FPE 2021. In addition, our audited combined financial statements for the financial years/period under review were not subject to any audit qualifications.

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12.2.2 Review of our results of operations

(a) Revenue

Analysis of revenue by segment

	Audited						Unaudited		Audited	
	FYE 2018		FYE 2019		FYE 2020		FPE 2020		FPE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Fabrication of sheet metal	53,658	95.8	53,012	90.5	72,157	86.2	37,055	85.6	37,096	85.9
Precision machining	2,365	4.2	5,582	9.5	11,529	13.8	6,227	14.4	6,099	14.1
	56,023	**100.0**	**58,594**	**100.0**	**83,686**	**100.0**	**43,282**	**100.0**	**43,195**	**100.0**

Our revenue for the financial years/periods under review are mainly derived from the fabrication of sheet metal segment, which accounted for more than 85.0% of our revenue from FYE 2018 to 2020 and FPE 2020 to 2021. Our precision machining segment steadily grew its revenue contribution from RM2.4 million in FYE 2018 to RM6.1 million in FPE 2021.

Analysis of revenue by region

	Audited						Unaudited		Audited	
	FYE 2018		FYE 2019		FYE 2020		FPE 2020		FPE 2021	
Geographical location	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Malaysia [(1)]	41,646	74.4	41,357	70.6	59,179	70.7	32,419	74.9	26,734	61.9
Singapore	12,887	23.0	13,136	22.4	17,977	21.5	8,211	19.0	12,204	28.3
USA	515	0.9	1,210	2.1	3,986	4.8	1,433	3.3	3,363	7.8
China	77	0.1	85	0.2	1,640	1.9	1,132	2.6	16	*-
Other countries [(2)]	43	0.1	762	1.3	148	0.2	61	0.1	157	0.4
European countries [(3)]	855	1.5	2,044	3.5	756	0.9	26	0.1	721	1.6
	56,023	**100.0**	**58,594**	**100.0**	**83,686**	**100.0**	**43,282**	**100.0**	**43,195**	**100.0**

Notes:

* Negligible

(1) Revenue from Malaysia is generated from subsidiaries of MNCs

(2) Other countries consists of Australia, Indonesia, Thailand, Taiwan, Vietnam and Japan

(3) European countries consists of Germany, Switzerland, Spain, Romania and Netherlands

Comparison between FYE 2018 and FYE 2019

Revenue for FYE 2019 grew by RM2.6 million or 4.6% from RM56.0 million to RM58.6 million. On a segmental basis, revenue from fabrication of sheet metals remained fairly consistent at RM53.0 million for FYE 2019, a marginal RM0.6 million drop from RM53.7 million in FYE 2018. The growth in revenue for FYE 2019 was driven by additional RM3.2 million from precision machining segment, from Customer J and Customer P as we produced higher volume of new semiconductor components which have been prototyped during previous years, which required our double column milling machine due to the components' size. The double column milling machine was acquired in October 2015.

On a geographical basis, revenues remained fairly consistent, except for USA (growth of RM0.7 million or 135.0%) largely from new customers, other Asian countries (growth of RM0.7 million or 1,637.6%) largely from a new customer based in Vietnam and European countries (growth of RM1.2 million or 139.0%) largely from an existing customer. Such increase in export revenue is mainly due to higher demand for sheet metal parts from new customers involved in the cloud computing industry in USA and Vietnam as well as energy saving equipment in Europe.

Comparison between FYE 2019 and FYE 2020

Revenue for FYE 2020 grew by RM25.1 million or 42.8% from RM58.6 million to RM83.7 million, largely contributed by growth from the fabrication of sheet metal segment, which grew by RM19.1 million or 36.1%. The increase was largely from an incremental RM10.3 million revenue contributed by our major customer, Customer J, mainly for the semiconductor industry. Additionally, Customer P contributed an incremental of RM2.3 million, and a new customer, namely Customer M, who contributed about RM4.8 million incremental revenue due to the semiconductor industry boom. This was supported by RM5.9 million or 106.5% growth from the precision machining segment mainly contributed by Customer J (increase of RM5.0 million) for precision machined components used in the semiconductor industry.

On a geographical basis, Malaysia contributed the largest growth of RM17.8 million or 43.1%, mainly from Customer J and Customer P, due to the overall boom in the semiconductor industry. The same effect is seen from Singapore, which contributed incremental revenue of RM4.8 million or 36.9%, mainly from Customer M (increment of RM3.6 million) for the semiconductor industry, and Customer A (RM1.2 million increase) for the medical industry. USA saw growth of RM2.8 million or 229.4%, mainly from Customer M (RM1.2 million increment), 2 other existing customers in the semiconductor and telecommunication industries (RM1.1 million increment), and a new EMS customer in the medical industry (RM0.4 million). China's growth of RM1.6 million or 1,829.4% was mainly from new customers in the semiconductor industry.

12. FINANCIAL INFORMATION *(Cont'd)*

Comparison between FPE 2020 and FPE 2021

For the period of FPE June 2021, the Group secured revenue of RM43.2 million, a marginal reduction of RM0.1 million (0.2%) amidst the MCO situation, which comprised mainly revenue from the top 5 customers, as well as Customer K and Customer V, which collectively made up 88.3% of the total revenue, and 98% of the revenue was derived from Malaysia, Singapore and USA.

Revenue from Malaysia of RM26.7 million was largely derived from Customer J (RM15.3 million or 57.3%) for semiconductor and instrumentation segment, Customer P (RM8.0 million or 30.0%) for semiconductor segment and Customer V (RM1.7 million or 6.3%) for instrumentation segment. Revenue from Singapore of RM12.2 million was mainly derived from Customer A (RM5.3 million or 43.4%) for medical and life science segment, Customer M (RM3.0 million or 24.6%) and Customer N (RM1.9 million or 15.6%) for semiconductor segment and Customer K (RM1.8 million or 14.8%) for instrumentation segment. Revenue from USA of RM3.4 million was mainly derived from Customer M (RM1.0 million or 29.4%) for semiconductor components and 3 other customers for E&E segment (RM2.0 million or 58.9%).

(b) Cost of sales, GP and GP margin

<u>Analysis of cost of sales by cost components</u>

	Audited						Unaudited		Audited	
	FYE 2018		FYE 2019		FYE 2020		FPE 2020		FPE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Raw materials	16,446	38.7	16,410	37.4	25,537	40.4	12,164	39.3	9,088	30.2
Direct labour	5,085	12.0	6,516	14.9	9,895	16.0	4,970	16.1	5,676	18.8
Factory overhead	20,950	49.3	20,949	47.7	26,932	43.6	13,817	44.6	15,354	51.0
	42,481	**100.0**	**43,875**	**100.0**	**62,364**	**100.0**	**30,951**	**100.0**	**30,118**	**100.0**

The major components of our cost of sales are raw materials and factory overhead, which collectively accounted for 81.2% to 88.0% of our cost of sales for FYE 2018 to 2020 and FPE 2020 to 2021.

(i) Raw materials

Raw materials comprise mainly LLM, aluminium, cold rolled steel, stainless steel and copper. We also buy consumables for our production such as packaging materials to be provided to our finishing subcontractors. The increase in raw material costs during FYE 2020 was in line with the increase in total revenue for the same period. In addition, we also made a provision for slow moving stocks amounting to RM0.9 million. During FYE 2020, we also introduced new products, which requires the use of more materials as well as more labour hours, where the sales yielded is low and there is higher wastage through the product development process, which is a learning process before a component can be mass produced.

12. FINANCIAL INFORMATION *(Cont'd)*

(ii) Direct labour

Direct labour comprises salaries, wages and allowances as well as statutory contributions for production workers that we directly employ.

For FYE 2019, the increase in direct labour cost was mainly due to increase in monthly average production headcount from 134 in FYE 2018 to 164 in FYE 2019 in preparation for the business growth in sheet metal fabrication in FYE 2020. This involves more manpower for prototype qualification for sheet metal products, mainly for our major customers in the semiconductor industry, as well as training costs, for which revenue contribution only materialised in FYE 2020.

For FYE 2020, the increase in direct labour cost was a result of our increase in monthly average production headcount from 164 in FYE 2019 to 264 in FYE 2020, in line with our revenue growth. During FYE 2020, we also introduced new products, which requires the use of more materials as well as more labour hours, where the sales yielded is low and there is higher wastage through the product development process, which is a learning process before a component can be mass produced.

(iii) Factory overhead

Factory overhead mainly comprises depreciation of property, plant and equipment, subcontractors' costs, upkeep expenses, utilities charges and indirect staff cost relating to the production activities such as quality assurance, product development and store-keeping.

For FYE 2018 and FYE 2019, factory overhead cost remains fairly consistent. For FYE 2020, the increase was mainly from subcontracting costs for finishing and machining, which increased by RM5.3 million to cater for the overall increase in demand. Despite the increase, we achieved economies of scale with respect to our factory overhead in FYE 2020 as it only increased by 28.6% compared to our revenue growth of 42.8%.

Analysis of cost of sales by segment

	Audited						Unaudited		Audited	
	FYE 2018		FYE 2019		FYE 2020		FPE 2020		FPE 2021	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Fabrication of sheet metal	40,638	95.7	39,522	90.1	53,506	85.8	26,009	84.0	25,421	84.4
Precision machining	1,843	4.3	4,353	9.9	8,858	14.2	4,942	16.0	4,697	15.6
	42,481	**100.0**	**43,875**	**100.0**	**62,364**	**100.0**	**30,951**	**100.0**	**30,118**	**100.0**

Analysis of GP and GP margin by segment

	Audited						Unaudited		Audited	
	FYE 2018		FYE 2019		FYE 2020		FPE 2020		FPE 2021	
	GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Fabrication of sheet metal	13,022	24.3	13,491	25.4	18,651	25.8	11,046	29.8	11,674	31.5
Precision machining	520	22.0	1,228	22.0	2,671	23.2	1,285	20.6	1,403	23.0
	13,542	**24.2**	**14,719**	**25.1**	**21,322**	**25.5**	**12,331**	**28.5**	**13,077**	**30.3**

We do not practise any fixed pricing policy. The selling prices of our products and services are determined and negotiated on a case-to-case basis, and may vary according to various factors such as complexity, specifications and requirements, volume of order, raw material prices, delivery lead time as well as future prospects of new orders from our customers. As such, the margins derived from our products and services are not fixed.

Comparison between FYE 2018 and FYE 2019

For FYE 2019, our revenue increased by 4.6% however cost of sales only increased by 3.3%. This was due to relatively lower raw material consumption as a result of better utilisation in our fabrication of sheet metal segment, as well as achieving overall economies of scale in factory overhead. As a result, our GP margin from fabrication of sheet metal improved from 24.3% to 25.4%.

Comparison between FYE 2019 and FYE 2020

For FYE 2020, our cost of sales increased by 42.1% in line with our revenue growth of 42.8%. Our GP margin remained relatively consistent at 25.5%. Our GP margin for precision machining segment in FYE 2020 increased from 22.0% to 23.2% due to overall economies of scale as our revenue had increased from RM5.6 million to RM11.5 million, generating more revenue against our fixed costs for FYE 2020.

Comparison between FPE 2020 and FPE 2021

For FPE 2021, our cost of sales was RM25.4 million for the fabrication of sheet metal segment resulted in a GP of RM11.7 million and GP margin of 31.5%, which is higher than the GP margin of 29.8% for FPE 2020. For precision machining segment, cost of sales for FPE 2021 was RM4.7 million and resulted in a GP of RM1.4 million and the GP margin of 23.0% is higher than the GP margin for FPE 2020 of 20.6%.

12. FINANCIAL INFORMATION *(Cont'd)*

We did not make any provision for stock obsolescence in FPE 2021 for both segments as we did in FYE 2020, as well as a lower bonus provisions for FPE 2021 for both segments. These contributed to the overall margin improvements for both segments. Additionally, for fabrication of sheet metal segment, we have also been increasing production towards a higher margin product mix from 4 customers involving semiconductor projects in the front-end segment.

(c) Other income

	Audited						Unaudited		Audited	
	FYE 2018		FYE 2019		FYE 2020		FPE 2020		FPE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Gain on disposal of property, plant and equipment	21	2.1	7	1.2	1,893	79.3	16	1.8	46	5.1
Deferred income released[(1)]	561	57.4	336	55.3	336	14.1	168	18.6	168	18.7
Interest income	96	9.8	84	13.8	76	3.1	30	3.3	23	2.6
Miscellaneous income	4	0.4	-	-	2	0.1	*-	*-	-	-
Rental income[(2)]	108	11.1	101	16.6	81	3.4	41	4.6	-	-
Realised gain on foreign exchange	-	-	80	13.1	-	-	646	71.7	-	-
Unrealised gain on foreign exchange	187	19.2	-	-	-	-	-	-	661	73.6
	977	**100.0**	**608**	**100.0**	**2,388**	**100.0**	**901**	**100.0**	**898**	**100.0**

Notes:

* Negligible

(1) Our Group was awarded government grants from MIDA for the reimbursement of capital expenditure on modernisation of specified machinery and equipment. Deferred income is released to profit or loss over the periods to match the related cost which the grant is intended to compensate, on a systematic basis. In FYE 2018, deferred income for 2 years was released for the relevant machinery which we acquired in FYE 2017, as the grant money was only received in FYE 2018.

(2) The rental income is derived from STS (for the amounts as disclosed in Section 10.1) and from R-Plus Technology (M) Sdn Bhd for the remainder amount of RM0.06 million in FYE 2018, for the rental of a piece of industrial land held under GM1536, Lot 4093, Mukim 07, Jalan Bukit Panchor, Daerah Seberang Perai Selatan, Negeri Pulau Pinang bearing assessment address at No. 14, Lorong Industri 5, Kawasan Industri Bukit Panchor, 14300 Nibong Tebal, Seberang Perai Selatan, Pulau Pinang together with 1½-storey detached factory erected thereon.

12. FINANCIAL INFORMATION *(Cont'd)*

Comparison between FYE 2018 and FYE 2019

For FYE 2019, our other income decreased by RM0.4 million or 37.8% as compared to FYE 2018. The decrease was mainly attributable to lower deferred income released during FYE 2019 compared to FYE 2018 by RM0.2 million. Additionally, we recorded unrealised gain on foreign exchange of RM0.2 million, being gains due to the depreciation of RM against USD during FYE 2018.

Comparison between FYE 2019 and FYE 2020

For FYE 2020, our other income increased by RM1.8 million or 292.8%, mainly due to a gain on disposal of the parcel of industrial land and factory to Armour Holdings, further details of which are set out in Section 10.1.

Comparison between FPE 2020 and FPE 2021

For FPE 2021, our other income decreased by RM0.03 million or 0.3% as compared to FPE 2020. The decrease was mainly attributed to the drop in rental income received from STS for renting a piece of industrial land due to the termination of tenancy agreement on 31 December 2020.

(d) Administrative expenses

	Audited						Unaudited		Audited	
	FYE 2018		FYE 2019		FYE 2020		FPE 2020		FPE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Depreciation	499	8.9	652	10.0	769	8.9	376	9.9	493	10.5
Directors' remuneration and fee	1,102	19.7	923	14.2	1,345	15.6	120	3.2	25	0.5
Insurance	157	2.8	179	2.8	247	2.9	108	2.8	117	2.5
Maintenance fees for building and office equipment	308	5.5	370	5.7	417	4.8	135	3.6	236	5.0
Printing and stationery	102	1.8	139	2.1	171	2.0	64	1.7	76	1.6
Realised loss on foreign exchange	68	1.2	-	-	395	4.6	-	-	178	3.8
Security fee	122	2.2	149	2.3	150	1.7	76	2.0	87	1.8
Staff costs[(1)]	2,280	40.8	3,087	47.4	3,933	45.6	2,460	64.7	2,892	61.5
Telephone, fax and internet charges	154	2.8	169	2.6	110	1.3	58	1.5	34	0.7

12. FINANCIAL INFORMATION *(Cont'd)*

	Audited						Unaudited		Audited	
	FYE 2018		FYE 2019		FYE 2020		FPE 2020		FPE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Unrealised loss on foreign exchanges	-	-	138	2.1	472	5.5	130	3.4	-	-
Others[(2)]	801	14.3	702	10.8	608	7.1	275	7.2	567	12.1
	5,593	**100.0**	**6,508**	**100.0**	**8,617**	**100.0**	**3,802**	**100.0**	**4,705**	**100.0**

Notes:

(1) Comprises mainly finance, human resources, IT and supply chain staff. Includes salaries, bonuses, allowances, employees' provident fund contributions, employee insurance scheme, overtime and staff related expenses.

(2) Mainly consists of advertisement, assessment and quit rent, audit fee, bank charges, consultancy fee, human resource development fund contributions, legal fee and medical fee.

Comparison between FYE 2018 and FYE 2019

For FYE 2019, administrative expenses increased by RM0.9 million or 16.4% as compared to FYE 2018. The increase was mainly due to the following:

(i) Increase in staff costs by RM0.8 million due to hiring of additional staff in preparation for our business growth in FYE 2020, annual increment and bonus payment;

(ii) Increase in depreciation by RM0.2 million due to increase in our capital expenditure on furniture, fittings and office equipment in FYE 2019; and

(iii) Unrealised loss on foreign exchange of RM0.1 million, due to appreciation of RM against USD as at the reporting date of FYE 2019 which resulted in the translation of USD denominated financial assets to a lower RM amount compared against the recorded amount based on the prevailing rate of RM against USD on the transaction date.

The increase was offset by RM0.2 million decrease in directors' remuneration and fees. For FYE 2018, we accorded higher directors' fees to certain directors in view that their fees for FYE 2017 were only approved in FYE 2018.

12. FINANCIAL INFORMATION *(Cont'd)*

Comparison between FYE 2019 and FYE 2020

For FYE 2020, administrative expenses increased by RM2.1 million or 32.4% as compared to FYE 2019. The increase was mainly due to the following:

(i) Increase in staff costs by RM0.8 million due to hiring of additional staff, mainly for planning and engineering, which commensurates with our business growth;

(ii) Realised loss on foreign exchange of RM0.4 million due to appreciation of RM against USD which resulted in a lower RM amount recorded on receipts from our customer versus the prevailing rate of RM against USD on transaction date; and

(iii) Increase in unrealised loss on foreign exchange by RM0.3 million due to appreciation of RM against USD as explained above.

Comparison between FPE 2020 and FPE 2021

For FPE 2021, administrative expenses increased by RM0.9 million or 23.8% as compared to FPE 2020. The increase was mainly due to the following:

(i) Increase in depreciation of RM0.1 million due to additional property plant and equipment;

(ii) Increase in maintenance fees for building and office equipment by RM0.1 million, mainly for security and office software, disinfection and sanitisation services, as well as pest control;

(iii) Increase in staff cost of RM0.4 million due to recruitment of 20 additional staff; and

(iv) Increase in other administrative expenses of RM0.3 million, mainly for COVID-19 related expenses, human resource development fund contributions, legal and consultancy fees.

12. FINANCIAL INFORMATION *(Cont'd)*

(e) Selling and distribution expenses

	Audited						Unaudited		Audited	
	FYE 2018		FYE 2019		FYE 2020		FPE 2020		FPE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Freight and forwarding charges	181	5.1	209	5.3	193	4.7	93	4.2	96	5.4
Maintenance of motor vehicles	48	1.3	55	1.4	87	2.1	41	1.8	20	1.1
Sales representative fee	228	6.4	213	5.4	87	2.1	87	3.9	-	-
Staff costs(1)	2,822	79.5	3,212	81.7	3,560	87.3	1,930	86.6	1,599	89.1
Transportation	88	2.5	87	2.2	90	2.2	40	1.8	54	3.0
Others(2)	182	5.2	156	4.0	61	1.6	37	1.7	26	1.4
	3,549	**100.0**	**3,932**	**100.0**	**4,078**	**100.0**	**2,228**	**100.0**	**1,795**	**100.0**

Notes:

(1) Our selling and distribution processes also involve also involve staff such as engineers to perform new product introduction and executives for customer service, the costs of which generally commensurate to the amount of sales we generate.

(2) Mainly consists of entertainment, membership fee, telephone and handphones and travelling fees.

Comparison between FYE 2018 and FYE 2019

For FYE 2019, selling and distribution expenses increased by RM0.4 million or 10.8% as compared to FYE 2018, mainly due to increase in staff costs by RM0.4 million. This was mainly due to hiring of additional employees in preparation for our business growth in FYE 2020 and annual increment.

Comparison between FYE 2019 and FYE 2020

For FYE 2020, selling and distribution expenses increased by RM0.1 million or 3.7% as compared to FYE 2019, mainly due to increase in staff costs by RM0.3 million. This was mainly due to hiring of additional employees and annual increment. This was offset by a decrease of RM0.1 million in other expenses comprising entertainment and traveling expenses as a result of the travel restriction due to the ongoing pandemic. In addition, we also recorded a decrease of RM0.1 million in sales representative fee due to termination of the services of our Singapore based sales representative, as we have established direct relationship with the customers in Singapore.

Comparison between FPE 2020 and FPE 2021

For FPE 2021, selling and distribution expenses decreased by RM0.4 million or 19.4% as compared to FPE 2020, mainly due to lower provision of bonus for FPE 2021 by RM0.3 million and the cessation of our sales representative office in Singapore.

(f) Finance costs

	Audited						Unaudited		Audited	
	FYE 2018		FYE 2019		FYE 2020		FPE 2020		FPE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bank overdraft	-	-	11	2.1	14	2.7	14	7.3	1	0.3
Bankers' acceptance	22	4.8	75	14.2	125	24.2	56	29.2	80	22.9
Hire purchase loans	122	26.4	112	21.3	53	10.3	62	32.3	187	53.6
Lease liability interest	-	-	-	-	7	1.4	-	-	9	2.6
Term loans	317	68.8	328	62.4	316	61.4	60	31.2	72	20.6
	461	**100.0**	**526**	**100.0**	**515**	**100.0**	**192**	**100.0**	**349**	**100.0**

Comparison between FYE 2018 and FYE 2019

For FYE 2019, finance cost increased by RM0.07 million or 14.1% as compared to FYE 2018, mainly due to additional finance cost as a result of new banking facilities of RM8.0 million for working capital and draw down of new term loans of RM2.6 million, mainly for the acquisition of land under Lot 2773 & 2776 in August 2019.

Comparison between FYE 2019 and FYE 2020

For FYE 2020, finance costs decreased by RM0.01 million or 2.1% due to lower interest on term loans by RM0.01 million as compared to FYE 2019 as a result of the decrease in base lending rate of a total of 100 basis points to 1.75% announced by BNM during FYE 2020. In addition, our finance costs on hire purchase loans also decreased by RM0.06 million or 52.7%, due to 6 months loan moratorium granted by the relevant financiers. The decrease in finance cost was partially offset by the increase in interest in bankers' acceptance of RM0.06 million due to higher utilisation of the said facilities.

Comparison between FPE 2020 and FPE 2021

For FPE 2021, finance costs increased by RM0.2 million or 81.8% due to higher utilisation of hire purchase loans for the purchase in FYE 2020 of 2 units of bending machines, a punching machine and a sanding machine, and higher utilisation of trade line for working capital, namely general operating expenses, as well as payment to creditors.

(g) PBT and PBT margin

	Audited			Unaudited	Audited
	FYE 2018	**FYE 2019**	**FYE 2020**	**FPE 2020**	**FPE 2021**
Adjusted PBT (RM'000)[(1)]	4,916	4,361	8,623	7,010	7,126
Adjusted pre-tax margin (%)	8.8	7.4	10.3	16.2	16.5

Note:

(1) Included in our other income in FYE 2020 is a gain from disposal of property, which is non-recurring. Our adjusted PBT for FYE 2020 exclude the said other income.

Comparison between FYE 2018 and FYE 2019

Our PBT decreased by RM0.6 million or 11.3% from RM4.9 million in FYE 2018 to RM4.4 million in FYE 2019. Our PBT margin reduced by 1.4%. Although we experienced slightly higher GP margin of 25.1% for FYE 2019, this was offset by increased administrative expenses of 16.4% as well as selling and distribution expenses of 10.8%, all of which largely relate to the hiring of additional headcount in preparation for our business growth in FYE 2020, and annual increment.

Comparison between FYE 2019 and FYE 2020

Our PBT increased by RM4.3 million or 97.7% from RM4.4 million in FYE 2019 to RM8.6 million in FYE 2020. PBT margin improved to 10.3%. Although our GP margin remained relatively consistent at 25.5%, we enjoyed economies of scale in our administrative expenses as well as selling and distribution expenses. Collectively, such expenses only increased by 21.6% compared to revenue growth of 42.8%.

Comparison between FPE 2020 and FPE 2021

Our PBT improved slightly by RM0.1 million or 1.7% from RM7.0 million in FPE 2020 to RM7.1 million in FPE 2021, mainly as a combined result of the marginal GP improvement by 1.8% as compared to FPE 2020 and reduced selling and distribution expenses but offset by higher administrative expenses.

(h) Taxation

	Audited			Unaudited	Audited
	FYE 2018	**FYE 2019**	**FYE 2020**	**FPE 2020**	**FPE 2021**
Taxation (RM'000)	1,465	944	[(1)]2,318	1,682	1,714
Statutory tax rate (%)	24.0	24.0	24.0	24.0	24.0
Effective tax rate (%)[(2)]	29.8	21.6	26.9	24.0	24.1

Notes:

(1) Included in taxation in FYE 2020 is the real property gains tax arising from the disposal of the property which is non-recurring. Our tax expense for FYE 2020 has been adjusted to exclude the said tax.

(2) Calculated based on the tax expense over PBT for each financial year/period. The PBT for FYE 2020 excludes gain from disposal of property, which is subject to real property gains tax and not income tax.

FYE 2018

For FYE 2018, the effective tax rate was higher than the statutory tax rate mainly due to certain expenses which are not deductible for tax purposes amounting to approximately RM0.3 million. In addition, we also recorded an under provision of tax in prior year amounting to approximately RM0.4 million due to recalculation of capital allowances as a result of a grant received in 2017. This was offset mainly by income not subject to tax amounting to RM0.1 million and utilisation of reinvestment allowance amounting to RM0.2 million.

FYE 2019

For FYE 2019, the effective tax rate was lower than the statutory tax rate mainly due to utilisation of reinvestment allowance of RM0.3 million and income not subject to tax amounting to RM0.1 million. This was offset mainly by certain expenses which are not deductible for tax purposes amounting to RM0.3 million.

FYE 2020

For FYE 2020, the effective tax rate was higher than the statutory tax rate mainly due to certain expenses which are not deductible for tax purposes amounting to approximately RM0.1 million. In addition, we also recorded an under provision of tax in prior years amounting to approximately RM0.8 million due to recalculation of capital allowances as a result of a grant received in 2018. This was offset mainly from utilisation of reinvestment allowance amounting to RM0.5 million.

FPE 2020 / FPE 2021

Our taxation for both FPE 2020 and FPE 2021 was at RM1.7 million which is effectively at 24.0%, being the statutory tax rate.

12.2.3 Review of financial position

(a) Assets

	Audited			
	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RM'000	RM'000	RM'000	RM'000
Non-current assets				
Property, plant and equipment	21,363	20,787	22,934	24,035
Right-of-use asset	-	-	411	334
	21,363	20,787	23,345	24,369
Current assets				
Inventories	8,177	11,523	10,815	17,782
Trade receivables	13,354	16,562	18,421	22,510
Other receivables, deposits and prepayments	1,073	1,187	1,133	2,146
Tax recoverable	1,039	253	185	-
Cash and bank balances	737	4,509	5,555	4,056
	24,380	34,034	36,109	46,494
Total assets	**45,743**	**54,821**	**59,454**	**70,863**

Comparison between FYE 2018 and FYE 2019

Non-current assets

Our non-current assets decreased by RM0.6 million mainly due to RM2.6 million of depreciation, which is offset by the acquisition of RM1.5 million of machinery comprising 2 welding machines and 3 milling machines and an air cooling unit, and RM0.4 million of furniture, fittings and office equipment.

Current assets

Current assets increased by RM9.7 million mainly from:

(i) RM3.3 million increase in inventories to meet sales orders for the first quarter of FYE 2020;

(ii) RM3.2 million increase in trade receivables due to higher sales generated in the last quarter of FYE 2019 compared to the corresponding period in FYE 2018; and

(iii) Increased cash and bank balances of RM3.8 million, where in FYE 2018, we utilised most of our cash and bank balances to acquire Lot 2773 & 2776.

Comparison between FYE 2019 and FYE 2020

Non-current assets

Our non-current assets increased by RM2.6 million mainly due to acquisition of:

(i) RM4.5 million of machinery, being mainly a punching and laser machine, 2 milling machines, 3 welding machines and a visual quality control machine;

(ii) RM0.6 million of furniture, fittings and office equipment;

(iii) RM0.4 million of motor vehicles, being 2 8-tonne lorries and a transportation van;

(iv) RM0.3 million of capital work-in-progress in relation to clearing of land and building of a temporary storage at Lot 2773 & 2776; and

(v) RM0.4 million of right-of-use assets being a new tenancy for our Kampung Jawa branch. This tenancy has been terminated.

The above was offset by:

(i) RM2.9 million of depreciation; and

(ii) RM0.9 million decrease in freehold buildings, being the disposal of a parcel of industrial land and factory to Armour Holdings, further details of which are set out in Section 10.1.

Current assets

Current assets increased by RM2.1 million mainly from:

(i) RM1.9 million increase in trade receivables in line with our overall higher sales revenue; and

(ii) Increased cash and bank balances of RM1.0 million in line with our business growth.

The above was offset by RM0.7 million decrease in inventories, largely due to a RM0.9 million provision for slow moving stock.

Comparison between FYE 2020 and FPE 2021

Non-current assets

Our non-current assets increased by RM1.1 million mainly due to acquisition of:

(i) RM0.7 million of machinery and equipment, being mainly 3 units of bending machine safety system, a milling machine and a forklift;

(ii) RM0.3 million of furniture, fitting and office equipment; and

(iii) RM1.6 million of capital work-in-progress in relation to building extension, construction of firewall, implementation of ERP software and also progress payment.

The above was offset by RM1.5 million of depreciation.

Current assets

Current assets increased by RM10.4 million mainly from:

(i) RM7.0 million increase in inventories as we accumulated more inventories towards the end of FPE 2021 to mitigate the possible risk of disruption in supply and in view of expected increase in demand towards the second half of FYE 2021; and

(ii) RM4.1 million increase in trade receivables due to higher sales level during the second quarter of FPE 2021 compared to the lower sales trend in the fourth quarter of FYE 2020.

The above was offset by RM1.5 million decrease in cash and bank balances due to higher purchases of raw material to meet sales orders for the coming quarters after FPE 2021.

(b) Liabilities

	Audited			
	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RM'000	RM'000	RM'000	RM'000
Non-current liabilities				
Borrowings	7,351	9,814	8,436	10,321
Lease liability	-	-	265	188
Deferred income	2,466	2,130	1,794	1,626
Deferred tax liabilities	1,060	1,149	928	971
	10,877	13,093	11,423	13,106
Current liabilities				
Trade payables	5,191	6,854	5,599	8,850
Other payables and accruals	3,284	2,992	6,098	6,431
Refund liabilities	-	75	195	195

	Audited			
	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RM'000	RM'000	RM'000	RM'000
Amount due to a director	-	-	3	3
Borrowings	1,768	3,768	6,732	7,382
Lease liability	-	-	149	153
Tax payable	-	-	-	77
	10,243	13,689	18,776	23,091
Total liabilities	**21,120**	**26,782**	**30,199**	**36,197**

Comparison between FYE 2018 and FYE 2019

Non-current liabilities

Our non-current liabilities increased by RM2.2 million mainly due to RM2.5 million of term loan facilities undertaken for acquisition of Lot 2773 & 2776, which is offset by deferred income released of RM0.3 million as a result of the government grants received for reimbursement of capital expenditure on modernisation of specific machinery and equipment.

Current liabilities

Current liabilities increased by RM3.4 million mainly from higher trade payables of RM1.7 million as we ordered more supplies to cater to orders at that point in time and higher borrowings of RM2.0 million, being bankers' acceptance drawn down for working capital.

Comparison between FYE 2019 and FYE 2020

Non-current liabilities

Our non-current liabilities decreased by RM1.7 million mainly due to repayment of borrowings of RM1.4 million and decreased deferred income of RM0.3 million due to annual amortisation.

Current liabilities

Current liabilities increased by RM5.1 million, resulting from RM3.1 million increase in other payables which relates to provision of bonus of the same amount, and RM2.8 million increase in bankers' acceptance in line with our increased sales, as well as increase in refund liabilities of RM0.1 million given to Customer J and Customer P, in line with prompt payment and sales volume.

This was offset by decrease in RM1.3 million in trade payables as we had more available funds from our growing operations in line with our business growth during the year to repay our trade payables. Additionally, our purchases level was lower towards the end of FYE 2020 in line with the lower sales in that period, which also contributed to a lower trade payables.

Comparison between FYE 2020 and FPE 2021

Non-current liabilities

Our non-current liabilities increased by RM1.7 million mainly due to increase in borrowings of RM1.9 million as our Group drew down on new hire purchase loans for a punching machine, 2 bending machines and a sanding machine, which were acquired in FYE 2020. The increased in non-current liabilities was reduced by deferred income of RM0.2 million due to annual amortisation.

Current liabilities

Current liabilities increased by RM4.3 million mainly from higher trade payables of RM3.3 million as we ordered more supplies in line with our Group increased sales during the second quarter onwards in FPE 2021, and higher borrowings of RM0.7 million, being new drawdown of hire purchase loans.

12.2.4 Review of cash flows

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FPE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net cash from/(used in) operating activities	1,086	1,289	9,342	(1,065)
Net cash used in investing activities	(5,785)	(1,981)	(3,028)	(2,532)
Net cash (used in)/from financing activities	(1,598)	4,106	(5,932)	264
Net (decrease)/increase in cash and cash equivalents	(6,297)	3,414	382	(3,333)
Cash and cash equivalents at the beginning of financial year/period	7,034	737	4,151	4,533
Cash and cash equivalents at end of financial year/period	**737**	**4,151**	**4,533**	**1,200**
Represented by:				
Cash and cash equivalents	737	4,509	5,555	4,056
Bank overdraft	-	(24)	-	-
Fixed deposit pledge to a licensed bank	-	(334)	(1,022)	(2,856)
	737	**4,151**	**4,533**	**1,200**

FYE 2018

Net cash for operating activities

In FYE 2018, our net cash used in operating activities amounted to RM1.0 million. Our collections of RM56.1 million were partially offset by payments of RM55.0 million. Such payments were mainly for:

(a) Purchase of raw materials of RM21.7 million;

(b) Direct labour costs of RM5.1 million;

(c) Staff and directors' remuneration of RM10.1 million;

(d) Payment of factory overheads, administrative and selling and distribution expenses of RM15.9 million; and

(e) Payment of income tax of RM1.7 million and interest expense of RM0.5 million.

Net cash for investing activities

In FYE 2018, our net cash used in investing activities amounted to RM5.8 million, due to cash outflow for the purchase of property, plant and equipment of RM5.9 million comprising mainly:

(a) 2 vacant industrial land under Lot 2773 & 2776 for RM3.6 million;

(b) Machinery and equipment for RM1.0 million being mainly a milling machine, 2 laser welding machines, an oven and a forklift; and

(c) Furniture, fittings and office equipment for RM0.8 million to accommodate the growth in our workforce, as well as for machinery software and upgrading of server equipment.

Net cash for financing activities

In FYE 2018, our net cash used in financing activities amounted to RM1.6 million. This was mainly attributable grant received of RM2.3 million and net drawdown of bankers' acceptance of RM0.5 million which was offset by net repayment of our hire purchase loans and term loans of RM0.6 million and RM0.7 million respectively. We also repaid RM3.0 million, being advances from our former holding company, Armour Holdings for our working capital requirement prior to FYE 2018. All advances to Armour Holdings have been fully repaid.

FYE 2019

Net cash for operating activities

In FYE 2019, our net cash generated from operating activities amounted to RM1.3 million. Our collections of RM55.4 million were partially offset by payments of RM54.1 million. Such payments were mainly for:

(a) Purchase of raw materials of RM18.1 million;

(b) Direct labour costs of RM6.5 million;

(c) Staff and directors' remuneration of RM10.8 million;

(d) Payment of factory overheads, administrative and selling and distribution expenses of RM18.0 million; and

(e) Payment of income tax of RM1.5 million and interest expense of RM0.5 million, which was partially offset by income tax refund of RM1.4 million.

Net cash for investing activities

In FYE 2019, our net cash used in investing activities amounted to RM2.0 million, due to cash outflow for the purchase of property, plant and equipment of RM2.1 million comprising mainly:

(a) Machinery and equipment of RM1.5 million being mainly for 2 welding machines, 3 milling machines and an air cooling unit; and

(b) Furniture, fittings and office equipment of RM0.4 million to accommodate additional staff.

Net cash for financing activities

In FYE 2019, our net cash from financing activities amounted to RM4.1 million. This was mainly attributable to net drawdown of our bankers' acceptance, hire purchase loans and term loans of RM1.7 million, RM0.2 million and RM2.6 million respectively, which was offset by changes in fixed deposit pledge to a licensed bank of RM0.3 million.

FYE 2020

Net cash for operating activities

In FYE 2020, our net cash generated from operating activities amounted to RM9.3 million. Our collections of RM81.8 million were partially offset by payments of RM72.5 million. Such payments were mainly for:

(a) Purchase of raw materials of RM25.5 million;

(b) Direct labour costs of RM9.9 million;

(c) Staff and directors' remuneration of RM13.1 million;

(d) Payment of factory overheads, administrative and selling and distribution expenses of RM20.8 million; and

(e) Payment of income tax of RM2.6 million and interest expense of RM0.5 million.

Net cash for investing activities

In FYE 2020, our net cash used in investing activities amounted to RM3.0 million due to cash outflow for the purchase of property, plant and equipment of RM5.9 million comprising mainly:

(a) Machinery and equipment of RM4.5 million, being mainly a punching and laser machine, 2 milling machines, 3 welding machines and a visual quality control machine;

(b) Furniture, fittings and office equipment of RM0.6 million to accommodate additional staff and to adapt to the MCO situation with more laptops and networking equipment which comprises IT infrastructure including servers and backup storage;

(c) Motor vehicles of RM0.4 million being 2 8-tonne lorries and a transportation van; and

(d) Capital work-in-progress of RM0.3 million in relation to clearing of land and building of a temporary storage on Lot 2773 & 2776.

Net cash used in investing activities was partially offset by proceeds from disposal of a piece of industrial land together with factory to Armour Holdings for a cash consideration of RM2.8 million, further details of which are set out in Section 10.1.

Net cash for financing activities

In FYE 2020, our net cash used in financing activities amounted to RM5.9 million. We declared and paid dividend of RM6.8 million in FYE 2020. Additionally, we also repaid hire purchase loans and term loans of RM0.4 million and RM0.8 million respectively. There were also increase in fixed deposit pledged by RM0.7 million to a licensed bank as collateral for borrowings. This was offset by net drawdown of our bankers' acceptance of RM2.8 million.

FPE 2021

Net cash for operating activities

In FPE 2021, our net cash used in operating activities amounted to RM1.1 million. The collections of RM39.1 million were offset by payments of RM40.2 million. Such payments were mainly for:

(a) Purchase of raw materials of RM13.7 million;

(b) Direct labour costs of RM5.7 million;

(c) Staff and directors' remuneration of RM6.5 million;

(d) Payment of factory overheads, administrative and selling and distribution expenses of RM12.6 million; and

(e) Payment of income tax of RM1.4 million and interest expense of RM0.3 million.

We incurred a net operating cash outflow for FPE 2021 mainly due higher tax paid arising from higher tax estimations in anticipation of increased taxable income for FYE 2021, as well as a one-off real property gains tax of approximately RM0.2 million.

Net cash for investing activities

In FPE 2021, our net cash used in investing activities amounted to RM2.5 million due to cash outflow for the purchase of property, plant and equipment of RM2.6 million comprising mainly:

(a) Machinery and equipment of RM0.7 million, being mainly 3 units of bending machine safety system, a milling machine and a forklift;

(b) Furniture, fittings and office equipment of RM0.3 million to accommodate the growth in our Group workforce with more laptops, upgrading of server equipment and design software licensing; and

(c) Capital work-in-progress of RM1.6 million mainly in relation to building extension, construction of firewall RM0.4 million, implementation of ERP software of RM0.3 million and also progress payment of RM0.7 million for bending machines in the existing factory which are pending commissioning.

Net cash for financing activities

In FPE 2021, our net cash from financing activities amounted to RM0.3 million. This was mainly attributable to new drawdown of hire purchase loans of RM3.8 million for purchases in FYE 2020 of a punching machine (RM3.2 million), 2 bending machines and a sanding machine (RM0.6 million), net of repayment of RM0.4 million, which was offset by additional fixed deposit pledge to a licensed bank of RM1.8 million. We also repaid RM1.0 million of term loans and prepayment for listing expenses of RM0.4 million.

12.3 LIQUIDITY AND CAPITAL RESOURCES

12.3.1 Working capital

We finance our operations with cash generated from operations, supplier's credit, various credit facilities extended by financial institutions as well as existing cash and bank balances. Our credit facilities from financial institutions comprise term loans, bankers' acceptance, bank overdrafts as well as hire purchase.

Our Board confirms that our working capital is sufficient for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus, taking into consideration the following:

(a) Our cash and cash equivalent of approximately RM5.1 million as at LPD (of which RM3.2 million is pledged to financial institutions);

(b) Our expected future cash flows from operations, taking into account the expected revenue from our major customers, who provide us with forecast of their orders between 6 to 12 months in advance. In addition, as at LPD we also have outstanding purchase orders in hand to be fulfilled within FYE 2021. These forecasted orders generally materialise, coupled with our existing outstanding purchase orders, are converted to cash within the credit period given;

(c) The impact of COVID-19 and MCO, assuming that our Group's operations are allowed to continue during lockdowns that may be potentially imposed by the Government;

(d) Our total trade financing facilities limit as at LPD of RM15.1 million (excluding term loans and hire purchase), of which RM7.9 million have been utilised; and

(e) Our pro forma gearing level of 0.41 times, based on our pro forma statements of financial position as at 30 June 2021 after the Acquisition, Public Issue and utilisation of proceeds.

We carefully consider our cash position and ability to obtain further financing before making significant capital commitments.

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12. FINANCIAL INFORMATION *(Cont'd)*

12.4 BORROWINGS AND INDEBTEDNESS

All of our borrowings are secured, interest-bearing and denominated in RM. Our total outstanding borrowings (bank borrowings and hire purchase loans) as at 30 June 2021 stood at RM17.7 million, details of which are set out below:

	Purpose	Security	Tenure of the facility	Effective interest rate	As at 30 June 2021
				%	RM'000
Interest bearing short-term borrowings, payable within 1 year:					
Term loans	Purchase of freehold land and buildings[4] and working capital	(a) First legal charge over the freehold land and buildings of Coraza Systems (b) Joint and several guarantees by our Directors and Promoters[3] (c) Corporate guarantee by Armour Holdings[3]	5 years to 23 years	2.45 to 3.37	882
Bankers' acceptance	Working capital	(a) First legal charge over the freehold land and buildings of Coraza Systems (b) Joint and several guarantees by our Directors and Promoters[3] (c) Corporate guarantee by Armour Holdings[3]	90 days	1.97 to 2.54	5,103
Hire purchase loans	Purchase of machinery and equipment	Asset purchased under the facility	5 years - 6 years	2.47 to 3.19	1,397
					7,382
Interest bearing long-term borrowings, payable after 1 year:					
Term loans	Purchase of freehold land and buildings[4] and working capital	(a) First legal charge over the freehold land and buildings of Coraza Systems (b) Joint and several guarantees by our Directors and Promoters[3] (c) Corporate guarantee by Armour Holdings[3]	5 years to 23 years	2.45 to 3.37	6,130

12. FINANCIAL INFORMATION *(Cont'd)*

	Purpose	Security	Tenure of the facility	Effective interest rate	As at 30 June 2021
				%	RM'000
Hire purchase loans	Purchase of machinery and equipment and motor vehicles	Asset purchased under the facility	5 years - 6 years	2.47 to 3.19	4,191
					10,321
Total borrowings					**17,703**

Gearing (times)	
After Acquisition but before Public Issue and utilisation of proceeds[(1)]	0.51
After Acquisition and utilisation of proceeds [(2)]	0.41

Notes:

(1) Computed based on our pro forma equity attributable to the owners of our Company of RM34.7 million in the pro forma statements of financial position after the Acquisition, but before Public Issue and utilisation of proceeds.

(2) Computed based on our pro forma equity attributable to the owners of our Company of RM63.8 million in the pro forma statements of financial position after adjusting for the Acquisition, Public Issue and utilisation of proceeds which includes repayment of bank borrowings of RM4.6 million. In tandem with the utilisation of proceeds, we have assumed the undertaking of borrowings for the construction of our new factory of RM13.3 million, which is not funded from our Public Issue.

(3) In conjunction with our Listing, we have obtained a conditional release and/or discharge of the guarantees by substituting the same with a corporate guarantee from our Company and/or other securities from our Group acceptable to the financiers. Until such release and/or discharge are obtained from the respective financiers, our Directors, Promoters and Armour Holdings will continue to guarantee the banking facilities extended to our Group.

(4) Includes loans for the purchase of 2 adjoining pieces of industrial land in Nibong Tebal acquired in 2004 and due in 2026, as well as the purchase of Lot 2773 & 2776 in 2018 which is due in 2046.

12. FINANCIAL INFORMATION *(Cont'd)*

As at LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currency.

We have not defaulted on payments of principal sums and/or interests in respect of any of our borrowings throughout FYE 2018 to 2020, FPE 2021 and up to LPD.

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

During FYE 2018 to 2020 as well as FPE 2021, we did not experience any claw back or reduction in the facilities limit granted to us by our lenders.

Separately, we have also recognised the following lease liabilities on the right-of-use assets which are denominated in RM:

	Purpose	**Tenure**	**As at 30 June 2021**
			RM'000
Lease liabilities payable within 1 year	Rental obligations for premises used in our operations at Kampung Jawa, Butterworth, which has been terminated(1)	12 to 36 months	153
Lease liabilities payable after 1 year	Rental obligations for premises used in our operations at Kampung Jawa, Butterworth, which has been terminated(1)	12 to 36 months	188
			341

Note:

(1) The notice of termination was served on 1 June 2021 and the rental obligations ended on 31 August 2021.

12.5 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

Save as disclosed in Section 12.4 above, we do not have or utilise any other financial instruments or have any other treasury policies. All our financial instruments are used for the purchase of property, plant and equipment and working capital requirements. As at 30 June 2021, save for hire purchase loans which are based on fixed rates, all our other facilities with licensed financial institutions are based on base rate plus or minus a rate which varies depending on the type of facility.

12.6 MATERIAL CAPITAL COMMITMENTS

As at LPD, save as disclosed below, we do not have any other material capital commitments:

	To be funded from our Public Issue	To be funded internally or with bank borrowings
	RM'000	RM'000
Approved and contracted for:		
Purchase of the following machinery:		
- a laser machine	1,825	-
- 2 grinding machines	-	455
- 3 bending machines	632	-
- 4 clinching machines	-	80
Building extension	437	105
Project consultant for construction of firewall	62	-
ERP software	242	-
Forklift	-	66
Air compressor	-	87
Approved but not contracted for:		
Factory construction on Lot 2773 & 2776	6,412	9,388
ERP hardware (including consultation fees)	431	-
	10,041	**10,181**

12.7 MATERIAL LITIGATION AND CONTINGENT LIABILITIES

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

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

12.8 KEY FINANCIAL RATIOS

The key financial ratios of our Group are as follows:

	Audited			
	As at 31 December			As at 30 June
	2018	2019	2020	2021
Trade receivables turnover (days)[(1)]	87	93	76	86
Trade payables turnover (days)[(2)]	58	50	36	43
Inventory turnover (days)[(3)]	67	82	65	86
Current ratio (times)[(4)]	2.4	2.5	1.9	2.0
Gearing ratio (times)[(5)]	0.4	0.5	0.5	0.5

Notes:

(1) Computed based on average opening and closing trade receivables over revenue for the year/period multiplied by 365 days for FYE 2018 to 2020 and 181 days for FPE 2021.

(2) Computed based on average opening and closing trade payables over cost of sales for the year/period multiplied by 365 days for FYE 2018 to 2020 and 181 days for FPE 2021.

(3) Computed based on average opening and closing inventory over cost of sales for the year/period multiplied by 365 days for FYE 2018 to 2020 and 181 days for FPE 2021.

(4) Computed based on current assets over current liabilities as at each year of FYE 2018 to 2020 and FPE 2021.

(5) Computed based on total borrowings over total equity as at each year of FYE 2018 to 2020 and FPE 2021.

12.8.1 Trade receivables turnover

The normal credit period granted by our Group to our customers is 30 to 90 days from the date of invoice. Other credit terms are assessed on a case by case basis.

Save for FYE 2019 where the trade receivables turnover days of 93 days was slightly beyond the maximum credit period of 90 days, our trade receivables turnover for the financial years under review were within the credit period granted to customers. For FYE 2019, the increase in trade receivables turnover days was mainly due to higher trade receivables balance for FYE 2019, where higher sales was generated during the last quarter of FYE 2019. The lower trade receivables turnover of 76 days for FYE 2020 was mainly due our higher revenue recorded in FYE 2020 as a result of our overall business growth and prompt payments from our major customers, namely Customer J and Customer P in line with their regular business practice, for RM13.3 million of orders which were due towards the end of FYE 2020. Additionally, our sales level was lower towards the end of FYE 2020, which also contributed to a lower trade receivables balance. For FPE 2021, the trade receivables turnover days were higher from 76 days for FYE 2020 to 86 days for FPE 2021 as trade receivables balance was higher as at 30 June 2021 compared to FYE 2020 due to higher sales level during the second quarter of FPE 2021 compared to lower sales trend in the fourth quarter of FYE 2020.

The ageing analysis of our trade receivables as at 30 June 2021 is as follows:

	As at 30 June 2021		Collected from 1 July 2021 up to LPD	Balance as at LPD	
	RM'000	**Percentage of trade receivables**	**RM'000**	**RM'000**	**Percentage of balance**
	(a)	**(a)/total of (a)**	**(b)**	**(c) = (a)-(b)**	**(c)/total of (c)**
Neither past due nor impaired	17,254	76.7	16,964	290	48.4
Past due but not impaired:					
- 1 to 30 days	4,699	20.9	4,491	208	34.7
- 31 to 60 days	187	0.8	187	-	-
- 61 to 90 days	249	1.1	150	99	16.6
- 91 to 120 days	17	0.1	15	2	0.3
- over 120 days	104	0.4	104	-	-
	5,256	23.3	4,947	309	51.6
	22,510	**100.0**	**21,911**	**599**	**100.0**

Subsequent to 30 June 2021 and up to LPD, we collected RM21.9 million, representing 97.3% of the total trade receivables as at 30 June 2021. The balance trade receivables which have yet to be collected as at LPD of RM0.6 million relates to minor discrepancies which are pending rectification of works by us.

Our total trade receivables past due as at 30 June 2021 is RM5.3 million, representing 23.3% of our total trade receivables. The overdue debts are largely within 1 to 30 days, bracket and are mainly due to the timing of payment processing by our MNC customers, which typically occurs at month end, regardless of the invoice date, and are hence typically slightly overdue. As at LPD, we have substantially collected the amount outstanding, and the balance has been reduced to less than RM0.3 million.

Our Group has not encountered any major disputes with our trade receivables. With respect to overdue debts, we have generally been able to collect payment eventually as evident by our subsequent collections after 30 June 2021.

Our Group has in place a credit procedure to monitor and minimise the exposure of default. Receivables are monitored on a regular and an ongoing basis. Credit evaluations are performed on all customers requiring credit over certain amount.

Financial assets are written off when there is no reasonable expectation of recovery, such as debtor failing to engage in a repayment plan with us. Where receivables have been written off, we will continue to engage enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

An impairment analysis is performed at each reporting date using a provision matrix that measures expected credit losses for all trade receivables. There was no impairment loss on trade receivables recognised over the financial years/period under review.

12.8.2 Trade payables turnover

The ageing analysis of our trade payables as at 30 June 2021 is as follows:

	As at 30 June 2021		Paid from 1 July 2021 up to LPD	Balance as at LPD	
	RM'000	**Percentage of trade payables**	**RM'000**	**RM'000**	**Percentage of balance**
	(a)	**(a)/total of (a)**	**(b)**	**(c) = (a)-(b)**	**(c)/total of (c)**
Within credit period	6,573	74.3	6,573	-	-
Exceeding credit period:					
- 1 to 30 days	1,881	21.3	1,881	-	-
- 31 to 60 days	363	4.1	363	-	-
- 61 to 90 days	4	*-	4	-	-
- 91 to 120 days	29	0.3	29	-	-
- over 120 days	-	-	-	-	-
	2,277	25.7	2,277	-	-
	8,850	**100.0**	**8,850**	**-**	**-**

The normal credit terms granted to us by our suppliers range from 30 to 90 days.

The trade payable turnover days for the financial years/period under review were within the normal credit terms granted by our creditors. The turnover days in FYE 2020 decreased mainly due to increased cost of sales in line with our growth, and a lower trade payable balance as at FYE 2020 due to the settlement of trade payables as there were more available funds generated from our operations in line with our business growth during the year. Additionally, our purchases level was lower towards the end of FYE 2020 in line with the lower sales in that period, which also contributed to a lower trade payables. The turnover days slightly increased from 36 days in FYE 2020 to 43 days in FPE 2021 mainly due to higher purchases in line with our Group increased sales and purchase more inventories during the second quarter onwards, resulting in a higher payable balance as at 30 June 2021.

As at LPD, we have fully paid our trade payables as at 30 June 2021. There are no disputes in respect of our trade payables and we are not aware of any legal action initiated by our suppliers or subcontractors to demand for payment.

12.8.3 Inventory turnover

Our Group's inventories comprise raw materials used for our manufacturing activities, work-in-progress and finished goods:

	Audited							
	FYE 2018		**FYE 2019**		**FYE 2020**		**FPE 2021**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Raw materials	3,959	48.5	5,255	45.6	4,252	39.3	6,632	37.3
Work-in-progress	2,367	28.9	4,311	37.4	3,400	31.4	8,667	48.7
Finished goods	1,851	22.6	1,957	17.0	3,163	29.3	2,483	14.0
	8,177	**100.0**	**11,523**	**100.0**	**10,815**	**100.0**	**17,782**	**100.0**

The largest component of our inventories comprises raw materials. This is because we are required to purchase certain LLM in minimum order quantities, which results in higher raw material inventory levels. These raw materials are mainly LLM, aluminium and stainless steel which are non-perishable in nature and commonly used in our production.

We do not have an inventory planning policy, but we generally target an inventory turnover of within 90 days from procurement of raw material up to delivery.

Our inventory turnover days increased from 67 days as at 31 December 2018 to 82 days as at 31 December 2019 mainly due to higher work-in-progress as at 31 December 2019 to cater for sales towards the first quarter of 2020. These work-in-progress were subsequently converted into finished goods and shipped out to customers. Subsequently, our inventory turnover days normalized to 65 days as at 31 December 2020. Our inventory turnover as at 30 June 2021 of 86 days was higher as we accumulated more inventories towards the end of FPE 2021 to mitigate the possible risk of disruption in supply and in view of the expected increase in demand towards the second half of FYE 2021.

The ageing analysis of our inventories as at 30 June 2021 is as follows:

	RM'000
12 months or less	17,434
More than 12 months	348
	17,782

Inventories which are more than 12 months mainly consist of raw materials such as LLM, aluminium and stainless steel which are usable.

We assess whether inventories should be impaired by identifying damaged, obsolete and slow moving inventories during periodic stock count. Slow moving inventories are those more than 12 months from the date of purchase. Damaged and obsolete inventories will be written off while a provision will be made for slow moving inventories.

Details of the provision for slow moving inventories for FYE 2018 to 2020 and FPE 2020 to 2021 are as follows:

	Audited			**Unaudited**	**Audited**
	FYE 2018	**FYE 2019**	**FYE 2020**	**FPE 2020**	**FPE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Provision for slow moving raw materials	-	-	926	-	-

Despite the provision for slow moving inventories, such raw materials which are mainly LLM, aluminium and stainless steel are still usable.

12.8.4 Current ratio

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

	Audited			
	As at 31 December			**As at 30 June**
	2018	**2019**	**2020**	**2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Current assets	24,380	34,034	36,109	46,494
Current liabilities	10,243	13,689	18,776	23,091
Net current assets	**14,137**	**20,345**	**17,333**	**23,403**

	Audited			
	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RM'000	RM'000	RM'000	RM'000
Current ratio (times)	2.4	2.5	1.9	2.0

Our current ratios range from 1.9 to 2.5 times for the financial years/period under review. The decrease in current ratio for FYE 2020 was mainly due to increase in current liabilities arising from bonuses accrued and bank borrowings drawn down as at 31 December 2020.

Our current ratios indicate that we are capable of meeting short term obligations as our current assets such as trade receivables and inventories, which can be readily converted to cash, together with our cash in bank are enough to meet our current liabilities.

12.8.5 Gearing ratio

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

	Audited			
	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RM'000	RM'000	RM'000	RM'000
Total borrowings	9,119	13,582	15,168	17,703
Total equity	24,623	28,039	29,255	34,666
Gearing ratio (times)	0.4	0.5	0.5	0.5

The increase in gearing from 0.4 times in FYE 2018 to 0.5 times in FYE 2019 was mainly due to drawdown of term loan for the purchase of Lot 2773 & 2776 and hire purchase for machinery.

12.9 SIGNIFICANT FACTORS AFFECTING OUR REVENUE

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

(a) We are dependent on our major customers

Although we enjoy a good working relationship with our major customers, there is no assurance that we will be able to retain these customers or maintain or increase the level of business activity that we have with them. Any adverse changes to the business relationship between our Group and our major customers such as cancellation of orders or a termination of the relationship my lead to a negative impact on our operations and financial performance.

(b) We are dependent on skilled workers and production workers

We are dependent on the supply of skilled workers and production workers. Although we have automated machinery and equipment in our manufacturing facility, we are still reliant on production workers. We are also dependent on the supply of skilled workers such as engineers who are involved in processes such as product D&D and programming of CNC machinery. In a tight skilled labour market, we face the risk of competing for our skilled workers among other companies involved in engineering supporting services. In the event that we are unable to retain or replace them, our business operations and financial performance may be negatively affected.

(c) We are dependent on the availability, quality and price fluctuations of raw materials

Our operations are dependent on consistent supply of raw materials that meet our quality standards. We must obtain raw materials on a timely basis in order for us to turn around and deliver our products on a timely basis to our customers. Any prolonged disruption in the supplies of these raw materials and/or raw materials that do not meet our quality standards will disrupt our business operations.

Our raw materials particularly steel and aluminium are also price sensitive and we face the risk of fluctuating prices. Although we can pass on such risks by increasing the selling price of our products to maintain our profit margin, such action would result in our products becoming less competitive in the market and this in turn may have a material and adverse effect on us.

(d) We are dependent on our continuing ability to identify and deploy the latest technology

The demand for our products is characterised by technological changes and advancement in industry standards. Our customers are continuously improving their products in order to keep up with technological demands of the market, and in turn, would require us to enhance our capabilities to meet their new product requirements.

If we are unable to keep up with the latest technological changes, or fund new capital expenditure required to upgrade our plant and machinery, our competitive position may be impaired and we could lose our customers to our competitors. This may have a material and adverse effect on us.

12.10 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

There were no government, economic, fiscal or monetary policies or factors which have materially affected our financial performance during FYE 2018 to 2020 and FPE 2021. Further to the government's announcement of the "Short-Term Economic Recovery Plan" or "PENJANA" on 5 June 2020, a special reinvestment allowance incentive will be given for manufacturing and selected agriculture activity as defined in Schedule 7A of the Income Tax Act 1967 for the years of assessment 2020 to 2022. We will be able to enjoy this special reinvestment allowance incentive.

There is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward. Risks relating to government, economic, fiscal or monetary policies or factors which may adversely and materially affect our operations are set out in Section 9.

12.11 IMPACT OF INFLATION

During FYE 2018 to 2020 and FPE 2021, our financial performance was not materially affected by the impact of inflation. However, there is no assurance that our financial performance will not be adversely affected by the impact of inflation moving forward.

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

(a) Impact of foreign exchange rates

Impact of foreign exchange rate to our Group as at 30 June 2021 is as follows:

	RM'000 equivalent of balances denominated			Total
	USD	**SGD**	**Others**	**RM'000**
Financial assets				
Cash and bank balances	782	-	-	782
Trade receivables	18,938	-	-	18,938
Other receivables, deposits and prepayments	830	179	-	1,009
	20,550	179	-	20,729
Financial liability				
Trade payables	385	-	58	443

Based on the tables above:

(i) Our foreign currency denominated trade and other receivables and deposits and prepayments represent 80.9% of our total trade and other receivables, deposits and prepayments of RM24.7 million as at 30 June 2021;

(ii) Our foreign currency denominated cash and bank balances represent only 19.3% of our total cash and bank balances of RM4.1 million as at 30 June 2021; and

(iii) Our foreign currency denominated trade payables represent 5.0% of our total trade payables of RM8.9 million as at 30 June 2021.

As at LPD, we do not enter into forward exchange contracts to hedge foreign currency risks. However, we monitor foreign exchange fluctuations on an on-going basis to ensure that our net foreign currency exposure is at an acceptable level.

A sensitivity analysis performed on our Group's foreign currency financial assets and liability as at 30 June 2021 indicates that our PBT for FPE 2021 would decrease or increase by approximately RM2.0 million, as a result of a 10% appreciation or depreciation of RM against USD.

(b) Impact of interest rates

Our exposure to changes in interest rate risk relates primarily to our borrowings from banks. We do not generally hedge interest rate risks.

A sensitivity analysis performed on our Group based on the outstanding floating rate of our bank borrowings as at 30 June 2021 indicates that our PBT for FPE 2021 would increase or decrease by approximately RM0.01 million, as a result of increase or decrease in interest rates by 25 basis points on these borrowings.

Our financial results for FYE 2018 to 2020 and FPE 2021 were not materially affected by fluctuations in interest rates.

(c) Impact of commodity prices

We were not materially affected by fluctuations in commodity prices for FYE 2018 to 2020 and FPE 2021. During FPE 2021 and up to LPD, prices of raw materials have increased between 10% to 70% depending on the type of materials. We are in the midst of requoting our selling prices to our customers to reflect the increased cost of raw materials.

12.13 ORDER BOOK

As at LPD, we have outstanding purchase orders of RM91.5 million to be fulfilled within FYE 2022, of which RM79.7 million relate to sheet metal fabrication, and RM11.8 million relate to precision machining. We do not maintain an order book as we generate our sales by way of purchase orders from our customers on an ongoing basis.

12.14 DIRECTORS' DECLARATION ON OUR GROUP'S FINANCIAL PERFORMANCE

Our Board is of the opinion that:

(a) Our revenue will remain sustainable with an upward growth trend, in line with the growth in the engineering support industry as set out in the IMR Report;

(b) Our liquidity will improve subsequent to the Public Issue given the additional funds to be raised for us to carry out our business strategies as stated in Section 7.19; and

(c) Our capital resources will strengthen, considering the proceeds to be raised from the Public Issue as well as internally generated funds. We may consider debt funding for our business expansion should the need arises.

In addition to the above, our Board is not aware of any circumstances which would result in a significant decline in our revenue and GP margins or know of any factors that are likely to have a material impact on our liquidity, revenue or profitability.

12.15 TREND INFORMATION

Based on our track record for FYE 2018 to 2020 and FPE 2021, the following trends may continue to affect our business:

(a) More than 85.0% of our revenue was derived from our fabrication of sheet metal segment. We expect this segment to continue contributing significantly to our revenue in the future;

(b) The main components of our cost of sales are raw materials and direct labour cost. Moving forward, our cost of sales is expected to fluctuate in tandem with our revenue segmentation. Our cost of sales is dependent on amongst others, the availability and price fluctuation of raw material and labour costs; and

(c) We achieved a GP margin of 24.2%, 25.1%, 25.5% and 30.3% for FYE 2018, FYE 2019, FYE 2020 and FPE 2021 respectively. We expect to maintain our GP margin within this range in the future. This would depend on, amongst others, our continued ability to manage our costs efficiently.

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

(a) Known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's financial performance, position and operations other than those discussed in Sections 7.9, 12.2, 12.9, 12.10, 12.11 and 12.12;

(b) Material commitments for capital expenditure save as disclosed in Section 12.6;

(c) Unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as discussed in Sections 7.8, 12.2, 12.9, 12.10, 12.11 and 12.12;

(d) Known trends, demands, commitments, events or uncertainties that have resulted in a substantial increase in our Group's revenue save for those that had been discussed in Sections 7.9, 12.2, 12.9, 12.10, 12.11 and 12.12; and

(e) Known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical combined financial statements not necessarily indicative of the future financial performance and position other than those discussed in Sections 7.9, 12.2, 12.9, 12.10, 12.11 and 12.12.

Although our Group temporarily suspended operations from 31 May 2021 to 7 June 2021 due to a directive from the MOH arising from positive COVID-19 cases detected among our employees, our financial performance in the immediate financial period up to LPD was only affected in terms of delayed revenue, for the periods where our production activities were halted. We did not experience any termination or cancellation of any of our orders as at LPD. None of our customers have imposed any penalty for delayed deliveries as at LPD, and we do not expect any such penalty.

Based on the above, our Board is optimistic about the future prospects of our Group given the positive outlook of the engineering support industry in Malaysia as set out in the IMR Report in Section 8, our Group's competitive strengths set out in Section 7.16 and our Group's intention to implement the business strategies as set out in Section 7.19.

12.16 DIVIDEND POLICY

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

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

During FYE 2018 to 2020 and FPE 2021, we declared and paid the following dividend:

	FYE 2018	FYE 2019	FYE 2020	FPE 2021
	RM'000	RM'000	RM'000	RM'000
Dividend declared and paid	-	-	6,800	-

No dividend was declared and paid subsequent to FPE 2021 and up to LPD.

12.17 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness:

(a) Based on latest unaudited combined financial information of our Group as at 31 October 2021; and

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

		I	II	III
	As at 31 October 2021	After Acquisition	After I and Public Issue	After II and utilisation of proceeds
	RM'000	RM'000	RM'000	RM'000
Capitalisation				
Shareholders' equity	(120)	42,762	75,744	71,867
Total capitalisation	**(120)**	**42,762**	**75,744**	**71,867**
Indebtedness (1)				
Current				
Bank overdrafts	-	*-	*-	*-
Bankers' acceptance	-	6,737	6,737	6,737
Term loans	-	893	893	99
Hire purchase	-	1,453	1,453	1,453
Non-current				
Term loans	-	5,829	5,829	15,379
Hire purchase	-	3,759	3,759	3,759
Total indebtedness	**-**	**18,671**	**18,671**	**27,427**
Total capitalisation and indebtedness	**(120)**	**61,433**	**94,415**	**99,294**
Gearing ratio (times) (2)	-	0.44	0.25	0.38

Notes:

* Negligible

(1) All of our indebtedness are secured and guaranteed, save for all our hire purchase facilities, which are secured but not guaranteed.

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

CORAZA INTEGRATED TECHNOLOGY BERHAD
(Registration No.: 202001039065 (1395386-M))
(Incorporated in Malaysia)

ACCOUNTANTS' REPORT ON THE
COMBINED FINANCIAL STATEMENTS
FOR THE FINANCIAL PERIOD ENDED
30 JUNE 2021
AND
FOR THE FINANCIAL YEARS ENDED
31 DECEMBER 2020, 31 DECEMBER 2019 AND 31 DECEMBER 2018

GRANT THORNTON MALAYSIA PLT

CHARTERED ACCOUNTANTS

Member Firm of Grant Thornton International Ltd

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26 November 2021

The Board of Directors
Coraza Integrated Technology Berhad
Lot 2777 Lorong Industri 5
Kawasan Industri Bukit Panchor
14300 Nibong Tebal
Seberang Perai Selatan
Penang

Dear Sirs,

Reporting Accountants' Opinion On The Combined Financial Statements Contained In The Accountants' Report Of Coraza Integrated Technology Berhad ("Company" or "Coraza")

Opinion

We have audited the accompanying combined financial statements of the Company and its combining entity, Coraza Systems Malaysia Sdn. Bhd., (collectively known as "Group") which comprises the combined statements of financial position as at 31 December 2018, 2019, 2020 and 30 June 2021 and the combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the financial years/period then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 58. The combined financial statements of the Group have been prepared for inclusion in the prospectus of the Company in connection with the listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad. This report is given for the purpose of complying with the Prospectus Guidelines issued by the Securities Commission Malaysia and should not be relied upon for any other purposes.

In our opinion, the accompanying combined financial statements give a true and fair view of the combined statements of financial position of the Group as at 31 December 2018, 2019, 2020 and 30 June 2021, and of their combined financial performance and combined cash flows for the financial years/period then ended in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the *Reporting Accountants' Responsibilities for the Audit of the Combined Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and Other Ethical Responsibilities

We are independent of the Group in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Responsibilities of the Directors for the Combined Financial Statements

The Directors of the Company are responsible for the preparation of the combined financial statements of the Group that give a true and fair view in accordance with 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 the combined financial statements of the Group that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

Grant Thornton

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

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

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

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

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

Other information

The comparative information in respect to the combined statements of comprehensive income, combined statements of cash flows and related notes to the combined financial information for the financial period ended 30 June 2020 has not been audited.

Restriction on Distribution and Use

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

Grant Thornton Malaysia PLT
AF: 0737
201906003682 (LLP0022494-LCA)
Chartered Accountants

Terence Lau Han Wen
No. 03298/04/2023 J
Chartered Accountant

Penang

CORAZA INTEGRATED TECHNOLOGY BERHAD
Registration No.: 202001039065 (1395386-M)
(Incorporated in Malaysia)

COMBINED STATEMENTS OF FINANCIAL POSITION

	Note	30.6.2021 RM	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM
		Audited			
ASSETS					
Non-current assets					
Property, plant and equipment	4	24,035,246	22,933,601	20,786,850	21,363,365
Right-of-use asset	5	333,819	410,854	-	-
		24,369,065	23,344,455	20,786,850	21,363,365
Current assets					
Inventories	6	17,781,773	10,814,702	11,522,916	8,176,846
Trade receivables	7	22,510,535	18,420,995	16,561,872	13,353,791
Other receivables, deposits and prepayments	8	2,145,889	1,133,916	1,187,664	1,073,673
Tax recoverable		-	185,575	252,900	1,038,601
Cash and cash equivalents	9	4,055,518	5,554,519	4,508,612	737,100
		46,493,715	36,109,707	34,033,964	24,380,011
TOTAL ASSETS		70,862,780	59,454,162	54,820,814	45,743,376
EQUITY AND LIABILITIES					
Equity					
Equity attributable to owners to the Company					
Share capital	10 (i)	1	1	-	-
Invested equity	10 (ii)	2,500,000	2,500,000	2,500,000	2,500,000
Retained profits	11	32,166,481	26,754,894	25,539,124	22,122,716
Total equity		34,666,482	29,254,895	28,039,124	24,622,716
Non-current liabilities					
Borrowings	12	10,321,075	8,435,741	9,814,345	7,350,743
Lease liability	5	187,589	264,866	-	-
Deferred income	13	1,626,110	1,794,120	2,130,140	2,466,160
Deferred tax liabilities	14	971,000	928,000	1,149,000	1,060,000
		13,105,774	11,422,727	13,093,485	10,876,903
Current liabilities					
Trade payables	15	8,850,050	5,599,398	6,854,142	5,191,515
Other payables and accruals	16	6,430,718	6,097,999	2,990,694	3,284,447
Refund liabilities	17	195,000	195,000	75,000	-
Amount due to a director	18	3,109	3,109	-	-
Borrowings	12	7,382,144	6,731,863	3,768,369	1,767,795
Lease liability	5	152,745	149,171	-	-
Tax payable		76,758	-	-	-
		23,090,524	18,776,540	13,688,205	10,243,757
TOTAL LIABILITIES		36,196,298	30,199,267	26,781,690	21,120,660
TOTAL EQUITY AND LIABILITIES		70,862,780	59,454,162	54,820,814	45,743,376

CORAZA INTEGRATED TECHNOLOGY BERHAD
Registration No.: 202001039065 (1395386-M)
(Incorporated in Malaysia)

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Audited 1.1.2021 to 30.6.2021 RM	Unaudited 1.1.2020 to 30.6.2020 RM	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2019 to 31.12.2019 RM	Audited 1.1.2018 to 31.12.2018 RM
Revenue	19	43,195,155	43,282,352	83,685,627	58,594,181	56,023,436
Cost of sales		(30,117,495)	(30,951,487)	(62,363,463)	(43,875,638)	(42,481,512)
Gross profit		13,077,660	12,330,865	21,322,164	14,718,543	13,541,924
Other income		897,794	900,494	2,388,336	607,652	977,141
Administrative expenses		(4,705,372)	(3,802,059)	(8,617,456)	(6,508,349)	(5,592,412)
Selling and distribution expenses		(1,795,027)	(2,227,637)	(4,077,949)	(3,932,228)	(3,549,409)
Operating profit		7,475,055	7,201,663	11,015,095	4,885,618	5,377,244
Finance costs		(348,732)	(191,690)	(515,131)	(525,559)	(461,324)
Profit before taxation	20	7,126,323	7,009,973	10,499,964	4,360,059	4,915,920
Taxation	21	(1,714,736)	(1,682,393)	(2,484,194)	(943,651)	(1,464,999)
Net profit, representing total comprehensive income for the financial year		5,411,587	5,327,580	8,015,770	3,416,408	3,450,921
Basic earnings per ordinary share	22	2.16	2.13	3.21	1.37	1.38

CORAZA INTEGRATED TECHNOLOGY BERHAD
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(Incorporated in Malaysia)

COMBINED STATEMENTS OF CHANGES IN EQUITY

		I--------- Non-distributable ---------I		I- Distributable -I	
	Note	**Share Capital RM**	**Invested Equity RM**	**Retained Profits RM**	**Total Equity RM**
Audited					
Balance as at 1.1.2018		-	2,500,000*	18,671,795	21,171,795
Total comprehensive income for the financial year		-	-	3,450,921	3,450,921
Balance as at 31.12.2018/ 1.1.2019		-	2,500,000	22,122,716	24,622,716
Total comprehensive income for the financial year		-	-	3,416,408	3,416,408
Balance as at 31.12.2019/ 1.1.2020		-	2,500,000	25,539,124	28,039,124
At date of incorporation on 30.11.2020		1	-	-	1
Total comprehensive income for the financial year		-	-	8,015,770	8,015,770
Transaction with owner:					
Dividends	23	-	-	(6,800,000)	(6,800,000)
Balance as at 31.12.2020/ 1.1.2021		1	2,500,000	26,754,894	29,254,895
Total comprehensive income for the financial period		-	-	5,411,587	5,411,587
Balance as at 30.6.2021		1	2,500,000	32,166,481	34,666,482

* *This denotes the share capital of Coraza Systems Malaysia Sdn. Bhd.*

CORAZA INTEGRATED TECHNOLOGY BERHAD
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COMBINED STATEMENTS OF CASH FLOWS

	Audited	Unaudited	I------- Audited	-------	-------I
	30.6.2021	30.6.2020	31.12.2020	31.12.2019	31.12.2018
	RM	RM	RM	RM	RM
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before taxation	7,126,323	7,009,973	10,499,964	4,360,059	4,915,920
Adjustments for:-					
Depreciation of property, plant and equipment	1,499,676	1,347,964	2,850,206	2,648,499	2,293,706
Depreciation of right-of-use asset	77,035	-	51,357	-	-
Deferred income released	(168,010)	(168,010)	(336,020)	(336,020)	(561,040)
Gain on disposal of property, plant and equipment	(46,000)	(15,800)	(1,892,903)	(7,103)	(20,800)
Interest expense	348,732	191,690	515,131	525,559	461,324
Interest income	(22,998)	(29,808)	(75,579)	(84,152)	(95,878)
Unrealised (gain)/loss on foreign exchange	(660,786)	129,695	471,825	138,240	(186,795)
Operating profit before working capital changes	8,153,972	8,465,704	12,083,981	7,245,082	6,806,437
(Increase)/Decrease in inventories	(6,967,071)	(2,728,884)	708,214	(3,346,070)	(780,565)
Increase in receivables	(4,088,685)	(5,173,059)	(2,284,790)	(3,450,362)	(138,762)
Increase/(Decrease) in payables	3,586,055	393,500	1,860,151	1,358,924	(2,608,809)
Increase in refund liabilities	-	-	120,000	75,000	-
Cash generated from operations	684,271	957,261	12,487,556	1,882,574	3,278,301
Income tax paid	(1,409,403)	(571,900)	(2,637,869)	(1,504,370)	(1,730,769)
Income tax refunded	-	-	-	1,435,420	-
Interest paid	(339,635)	(191,690)	(508,105)	(525,559)	(461,324)
Net cash (used in)/from operating activities	(1,064,767)	193,671	9,341,582	1,288,065	1,086,208
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	22,998	29,808	75,579	84,152	95,878
Proceeds from disposal of property, plant and equipment	78,000	15,800	2,815,860	7,103	20,800
Purchase of property, plant and equipment	(2,633,321)	(957,964)	(5,919,914)	(2,071,984)	(5,902,018)
Net cash used in investing activities	(2,532,323)	(912,356)	(3,028,475)	(1,980,729)	(5,785,340)

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COMBINED STATEMENTS OF CASH FLOWS (CONT'D)

	Audited	Unaudited	I------------	Audited	------------I
	30.6.2021	30.6.2020	31.12.2020	31.12.2019	31.12.2018
	RM	RM	RM	RM	RM
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid	-	-	(6,800,000)	-	-
Fixed deposits pledge to a licensed bank	(1,834,000)	(334,000)	(689,052)	(334,000)	-
Grant received	-	-	-	-	2,250,200
Net change in a director's account	-	-	3,109	-	-
Net drawdown of bankers' acceptance	137,103	1,334,000	2,828,000	1,686,000	452,000
Net draw down/ (repayment) of hire purchase loans	3,371,145	(201,295)	(407,308)	168,640	(596,714)
Net (repayment)/ drawdown of term loans	(972,633)	(206,041)	(811,563)	2,585,297	(662,373)
Payment of lease liability	(82,800)	-	(55,200)	-	-
Proceeds from issuance of share	-	-	1	-	-
Prepayment for listing expenses	(354,726)	-	-	-	-
Repayment of loan to former holding company	-	-	-	-	(3,040,767)
Net cash from/(used in) financing activities	264,089	592,664	(5,932,013)	4,105,937	(1,597,654)
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	(3,333,001)	(126,021)	381,094	3,413,273	(6,296,786)
CASH AND CASH EQUIVALENTS AT BEGINNING	4,531,467	4,150,373	4,150,373	737,100	7,033,886
CASH AND CASH EQUIVALENTS AT END	1,198,466	4,024,352	4,531,467	4,150,373	737,100

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COMBINED STATEMENTS OF CASH FLOWS (CONT'D)

(i) **The cash and cash equivalents are represented by:**

	Audited 30.6.2021 RM	Unaudited 30.6.2020 RM	Audited 31.12.2020 RM	Audited 31.12.2019 RM	Audited 31.12.2018 RM
Short term deposit with a licensed bank	-	2,000,000	1,503,119	1,000,000	-
Fixed deposits with a licensed banks	2,857,052	668,000	1,023,052	1,334,000	-
Cash and bank balances	1,198,466	2,024,352	3,028,348	2,174,612	737,100
	4,055,518	4,692,352	5,554,519	4,508,612	737,100
Less : Bank overdraft	-	-	-	(24,239)	-
Fixed deposit pledge to a licensed bank	(2,857,052)	(668,000)	(1,023,052)	(334,000)	-
	1,198,466	4,024,352	4,531,467	4,150,373	737,100

(ii) **Reconciliation of movement of liabilities to cash flows arising from financing activities**

	Balance at beginning RM	Net cash flows RM	Others RM	Balance at end RM
30.6.2021 (Audited)				
Loans and borrowings [(a)]	15,167,604	2,535,615	-	17,703,219
Lease liability	414,037	(82,800)	9,097	340,334
	15,581,641	2,452,815	9,097	18,043,553
30.6.2020 (Unaudited)				
Loans and borrowings [(a)]	13,558,475	926,664	-	14,485,139
31.12.2020 (Audited)				
Share capital	-	1	-	1
Loans and borrowings [(a)]	13,558,475	1,609,129	-	15,167,604
Lease liability	-	(55,200)	469,237[(b)]	414,037
Dividends	-	(6,800,000)	6,800,000	-
Amount due to a director	-	3,109	-	3,109
	13,558,475	(5,242,961)	7,269,237	15,584,751
31.12.2019 (Audited)				
Loans and borrowings [(a)]	9,118,538	4,439,937	-	13,558,475
31.12.2018 (Audited)				
Loans and borrowings [(a)]	9,925,625	(807,087)	-	9,118,538
Amount due to former holding company	3,040,767	(3,040,767)	-	-
	12,966,392	(3,847,854)	-	9,118,538

Notes:
(a) Loans and borrowings include term loans, hire purchase and bankers' acceptance.
(b) This represents the present value of lease payments to be made over the lease term and accretion of interest.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

This report has been prepared solely to comply with the Prospectus Guidelines issued by the Securities Commission Malaysia and for inclusion in the prospectus of Coraza in connection with the listing of and quotation for the entire enlarged issued share capital of Coraza on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") (hereinafter defined as "the Listing") via an initial public offering ("IPO") by Coraza.

Introduction

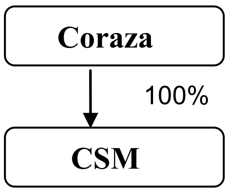
Coraza was incorporated on 30 November 2020 under the Companies Act 2016 in Malaysia as a private limited company and subsequently converted into a public limited company on 5 July 2021 and assumed its current name of Coraza Integrated Technology Berhad.

The registered office of Coraza is located at 48, Jalan Chow Thye, 10050, Georgetown, Penang. The principal place of business of the Company is located at Lot 2777 Lorong Industri 5, Kawasan Industri Bukit Panchor, 14300 Nibong Tebal, Seberang Perai Selatan, Penang.

Coraza was incorporated for the purpose of a re-organisation exercise by the vendors of Coraza Systems Malaysia Sdn. Bhd. ("CSM") which involves the acquisition of the entire equity interest in CSM. The acquisition was conditional upon, among others, the approval of relevant authorities being obtained for the Listing, which was obtained on 8 October 2021. The acquisition was completed on 19 November 2021.

The purchase consideration for the acquisition was RM29,252,868 and satisfied by the issuance of 310,540,000 new Coraza shares at an issue price of RM0.0942 per share and was arrived at on a "willing-buyer willing-seller" basis after taking into consideration the audited net asset of CSM as at 31 December 2020 of RM29,260,003.

Following the completion of the acquisition, the group structure of Coraza is as follows:-



Coraza's principal activity is that of investment holding while it's combining entity, CSM, is principally involved in the fabrication of sheet metal and precision machined components, as well as the provision of related services, such as design and development and value-added sub-module assembly services. CSM was incorporated in Malaysia on 18 September 2001.

Movement of share capital of Coraza

The share capital of Coraza as at the latest practicable date ("LPD") is RM1 comprising 1 ordinary share. The movement of Coraza's share capital since its incorporation are set out below:

Date of Allotment	No. of Shares allotted	Consideration/Type of Issue	Cumulative share capital RM
30 November 2020	1	RM1 / Subscribers' shares	1
19 November 2021	310,540,000	RM29,252,868 / Consideration for the acquisition of CSM	29,252,869

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

1. **GENERAL INFORMATION (CONT'D)**

Movement of share capital of Coraza (cont'd)

As at LPD, Coraza does not has any outstanding warrant, option, convertible securities and uncalled capital. In addition, there are no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment of shares.

Upon completion of the IPO, the enlarged share capital of Coraza will increase from RM29,252,869 comprising 310,540,001 ordinary shares to RM62,234,349 comprising 428,331,001 ordinary shares.

IPO Listing Scheme

(i) Public Issue

A total of 117,791,000 new Coraza ordinary shares ("Issued Shares") representing 27.5% of the enlarged share capital of Coraza are offered at an issue price of RM0.28 per share and shall be allocated in the following manner:

- 21,416,550 Issue Shares, representing 5.0% of the enlarged share capital are made available for application by the Malaysian Public,

- 21,416,550 Issue Shares, representing 5.0% of the enlarged share capital are reserved for the eligible Directors and employees, and

- 74,957,900 Issue Shares, representing 17.5% of the enlarged share capital are reserved for private placement to selected investors.

(ii) Offer for Sale

The major shareholders Mr. Paul Heng Weng Seng and Ms. Liew Sow Ying will undertake an offer for sale of 21,416,600 existing ordinary shares in Coraza ("Offer Shares"), representing approximately 5% of the enlarged share capital of Coraza, at RM0.28 per Offer Shares, by way of private placement to selected investors.

(iii) Listing

Subsequent to the above, the Company's entire enlarged share capital of RM62,234,349 comprising 428,331,001 ordinary shares shall be listed on the ACE Market of Bursa Securities.

2. **BASIS OF PREPARATION OF THE COMBINED FINANCIAL STATEMENTS**

The combined financial statements of the Group have been prepared as if the Group has been operating as a single economic entity throughout the financial period ended 30 June 2021 and financial years ended 31 December 2018, 2019 and 2020.

The common control of the Group has been established since the set-up of the Group by virtue of Mr. Paul Heng Weng Seng and Ms. Liew Sow Ying being the major shareholders and promoters of the Group.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

2. **BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)**

2.1 **Statement of Compliance**

The combined financial statements of the Group for the financial period ended 30 June 2021 and financial years ended 31 December 2018, 2019 and 2020, have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs") and in compliance with Chapter 10, Part II Division I: Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia.

2.1.1 **Changes in accounting policies**

During the financial years under review, the Group adopted the following accounting policies which are relevant and applicable to the Group's combined financial statements:-

(i) ***MFRS 15 Revenue from Contracts with Customers – effective 1 January 2018***

MFRS 15 provides a single model for accounting for revenue arising from contracts with customers using a 5-step approach model.

The standard focuses on the identification and satisfaction of performance obligations in recognising revenue, moving from the transfer of risk and rewards.

The Group adopted MFRS 15 Revenue from Contracts with Customers retrospectively.

The adoption of MFRS 15 Revenue from Contracts with Customers does not have material financial impact to the combined financial statements of the Group save for the adjustment to the transaction price as the Group provides prompt payment discounts and volume rebates to certain customers.

(ii) ***MFRS 9 Financial Instruments – effective 1 January 2018***

Classification and measurement

Previously, the Group's trade receivables and other financial assets (i.e., other receivables, refundable deposits and cash and cash equivalents) were classified as loans and receivables are now classified and measured at amortised cost.

Impairment

In respect of impairment of financial assets, MFRS 9 replaces the MFRS 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments measured at fair value through other comprehensive income, but not to investments in equity instruments. The Group adopted MFRS 9 retrospectively with practical expedients and transitional exemptions as allowed by the standard. Nevertheless, as permitted by MFRS 9, the Group has elected not to restate the comparatives. The change in impairment model did not have a material impact to the combined financial statements of the Group.

(iii) ***MFRS 16 Leases – effective 1 January 2019***

MFRS 16 replaces the guidance in MFRS 117, Leases, IC Interpretation 4, Determining whether an Arrangement contains a Lease, IC Interpretation 115, Operating Leases – Incentives and IC Interpretation 127, Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

2. **BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)**

2.1 **Statement of Compliance (cont'd)**

2.1.1 **Changes in accounting policies (cont'd)**

(iii) ***MFRS 16 Leases – effective 1 January 2019 (cont'd)***

MFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligations to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard which continues to be classified as finance or operating lease.

The adoption of MFRS 16 has no material financial impact to the combined financial statements of the Group save for a long-term lease of a premise entered into by the Group during the financial year ended 31 December 2020 which warrants recognition on the statement of financial position as disclosed in Note 5 to the combined financial statements.

2.2 **Basis of Measurement**

The combined financial statements of the Group are prepared under the historical cost convention unless otherwise indicated in the summary of accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group and by the Company.

The fair value of an asset or a liability is measured using the assumption that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

2.3 **Functional and Presentation Currency**

The combined financial statements are presented in Ringgit Malaysia ("RM") which is also the Group's functional currency.

2.4 **Standards Issued But Not Yet Effective**

The Group has not applied the following standards that have been issued by the Malaysian Accounting Standards Board ("MASB") but are not yet effective for the Group:

Effective for annual periods beginning on or after 1 June 2020
Amendment to MFRS 16 Leases: Covid-19 - Related Rent Concessions

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

2. **BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)**

2.4 **Standards Issued But Not Yet Effective (cont'd)**

Effective for annual periods beginning on or after 1 January 2021
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: Interest Rate Benchmark Reform – Phase 2

Effective for annual periods beginning on or after 1 April 2021
Amendment to MFRS 16 Leases: Covid-19 - Related Rent Concessions beyond 30 June 2021

Effective for annual periods beginning on or after 1 January 2022
Amendments to MFRS 3 Business Combination: Reference to the Conceptual Framework
Amendments to MFRS 116 Property, Plant and Equipment - Proceeds before Intended Use
Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Cost of Fulfilling a Contract
Annual Improvements to MFRS Standards 2018 - 2020

Effective for annual periods beginning on or after 1 January 2023
MFRS 17 Insurance Contracts
Amendments to MFRS 4 Insurance Contracts – Extension of the Temporary Exemption from Applying MFRS 9
Amendments to MFRS 17 Insurance Contracts
Amendments to MFRS 101 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current
Amendments to MFRS 101 Presentation of Financial Statements: Disclosure of Accounting Policies
Amendments to MFRS 108 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates
Amendments to MFRS 112 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Deferred to a date to be determined by the MASB
Amendments to MFRS 10 Consolidated Financial Statements and MFRS 128 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The initial application of the above standards is not expected to have any material impacts to the combined financial statements of the Group upon adoption.

2.5 **Significant Accounting Estimates and Judgements**

The preparation of the combined financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

2.5.1 **Judgements made in applying accounting policies**

There are no significant areas of critical judgement in applying accounting policies that have any significant effect on the amount recognised in the combined financial statements.

2.5.2 **Key sources of estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty and judgements at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

2. **BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONT'D)**

2.5 **Significant Accounting Estimates and Judgements (cont'd)**

Useful lives of depreciable assets

The Group's major fixed assets which are subject to key sources of estimation uncertainty are its machinery and equipment. Management estimates the useful lives of these assets to be 5 to 10 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and residual values of the machinery and equipment. Therefore, future depreciation charges could be revised.

Impairment of property, plant and equipment

The Group performs an impairment review as and when there are impairment indicators to ensure that the carrying value of its property, plant and equipment does not exceed their recoverable amount. The recoverable amount represents the present value of the estimated future cash flows expected to arise from continuing operations. Therefore, in arriving at the recoverable amount, management exercise judgement in estimating the future cash flows, growth rate and discount rate.

Inventories

The management reviews for damage, slow-moving and obsolete inventories. This review requires judgements and estimates. Possible changes in these estimates could result in revision to the valuation of inventories.

Provision for expected credit losses ("ECL") of receivables

The Group uses a provision matrix to calculate ECL for receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and expected credit losses is a significant estimate. The amount of expected credit losses is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

3. **ACCOUNTING POLICIES**

The following accounting policies adopted by the Group are consistently applied throughout the years under review unless otherwise stated.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.1 **Basis of Combination**

3.1.1 **Combining entities**

The combined financial statements comprise the financial statements of the Company and its combining entities as at the reporting dates. The financial statements of the Company and its combining entities used in the preparation of the combined financial statements are prepared as of the same reporting dates.

The combining entities are entities, including structured entities, under common control of the shareholders that control the Company and the combining entities ("Controlling Shareholders"), and are accounted for as if the Company and the combining entities are a single economic entity at the beginning of the earlier comparative period presented of, if later, at the date that common control was established; for this purpose, comparatives are restated. The assets and liabilities of the combining entities are recognised at the carrying amounts recognised in respective combining entities' financial statements. The components of equity of the combining entities are added to the same components within the Group's equity and any resulting gain or loss is recognised directly in equity.

The Controlling Shareholders control an entity when they are exposed, or have rights, to variable returns from their involvement with the entity and have the ability to affect those returns through their power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Controlling Shareholders also consider they have *de facto* power over an investee when, despite not having the majority of voting rights, they have the current ability to direct the activities of the investee that significantly affect the investee's return.

3.1.2 **Business combinations**

Business combinations are accounted for using the acquisition method from the acquisition date, which is the date on which control is transferred to the Group.

For new acquisitions, the Group measures the cost of goodwill at the acquisition date as:

- the fair value of the consideration transferred, plus
- the recognised amount of any non-controlling interest in the acquiree, plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less
- the net recognised amount at fair value of the identifiable assets acquired and liabilities assumed.

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

For each business combination, the Group elects whether to recognise non-controlling interest in the acquiree either at fair value, or at the proportionate share of the acquiree's identifiable net assets at the acquisition date.

Acquisition related costs are expensed as incurred and included in administrative expenses.

3.2 **Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.2 **Property, Plant and Equipment (cont'd)**

Property, plant and equipment are depreciated on the straight-line method to write off the cost of each asset to its residual value over its estimated useful life at the following annual rates:

Freehold buildings	2%
Machinery, equipment and tooling	10% - 20%
Furniture, fittings and office equipment	20% - 33.33%
Renovation	33.33%
Motor vehicles	20%

Freehold land is not depreciated as it has an infinite life.

Depreciation on capital work-in-progress commences when the assets are ready for their intended use.

The residual value, useful life and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from the disposal of the property, plant and equipment are charged or credited to profit or loss.

3.3 **Leases**

The Group assesses at contract inception 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.

Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. At the commencement of a lease, the Group recognises a right-of-use asset and a corresponding lease liability.

Right-of-use asset

The Group recognises right-of-use asset at the commencement date of the lease (i.e. the date the underlying assets are available for use). Right-of-use asset are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liability. The cost of right-of-use asset includes the amount of lease liability recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset 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.

The right-of-use asset is also subject to impairment as described in section 3.4.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.3 **Leases (cont'd)**

Lease liability

At the commencement date of the lease, the Group recognises lease liability measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liability is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short term leases and leases of low value assets

The Group applies the short-term lease recognition exemption to its short-term leases of equipment and hostel (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Group as lessor

The Group lets out its premise to a related party under short term operating lease for rental income. The Group recognises lease payments as income on a straight-line basis over the period of the lease.

3.4 **Impairment of Non-Financial Assets**

The Group assesses at the end of each reporting period whether there is an indication that an asset other than inventories may be impaired.

For the purpose of impairment testing, recoverable amount (i.e. the higher of the fair value less cost to sell and value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating units ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised as an impairment loss in the profit or loss.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset is recognised in profit or loss.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.5 **Financial Instruments**

3.5.1 **Initial recognition and measurement**

Financial assets or financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

3.5.2 **Classification and measurement of financial assets**

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the reporting period following the change of the business model.

Financial assets, other than those designated as hedging instruments, are classified into the following categories:

- amortised cost ("AC");
- fair value through profit or loss ("FVTPL"); and
- fair value through other comprehensive income ("FVOCI").

However, in the current financial year, the Group does not have any financial assets which are categorised as FVTPL and FVOCI.

Financial assets at AC

Financial assets are measured at AC if the assets meet the following conditions (and are not designated as FVTPL):
- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at AC using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and other receivables fall into this category of financial instruments.

3.5.3 **Impairment of financial assets**

Impairment requirements use more forward-looking information to recognise expected credit losses ("ECL") using the ECL model'. Instruments within the scope of the new requirements included loans, trade and other receivables and other debt-type financial assets measured at amortised cost and at FVOCI.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead, the Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

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3. **ACCOUNTING POLICIES (CONT'D)**

3.5 **Financial Instruments (cont'd)**

3.5.3 **Impairment of financial assets (cont'd)**

In applying this forward-looking approach, a distinction is made between:

Stage 1
- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk;

Stage 2
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low; and

Stage 3
- financial assets that have objective evidence of impairment at the reporting date.

12-month ECL' are recognised for the first category while 'lifetime ECL' are recognised for the second category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics and they are grouped based on the days past due.

3.5.4 **Classification and measurement of financial liabilities**

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group has designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.5 **Financial Instruments (cont'd)**

3.5.5 **Offsetting of Financial Instruments**

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

3.5.6 **Derecognition**

A financial asset or part of it is derecognised, when and only when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred to another party without retaining control or substantially all risks and rewards of the asset. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity is recognised in the 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 or cancelled or expired. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

3.6 **Inventories**

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

Cost is determined on the weighted average basis.

Cost in the case of work-in-progress and finished goods include materials, direct labour and attributable production overheads.

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

3.7 **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash in hand, bank balances, short term demand deposits, bank overdraft and highly liquid investments which are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown in current liabilities in the statement of financial position.

3.8 **Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost expense.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.9 **Revenue Recognition**

To determine whether to recognise revenue, the Group follows a five-step process:

(1) identifying the contract with a customer;
(2) identifying the performance obligation;
(3) determining the transaction price;
(4) allocating the transaction price to the performance obligations; and,
(5) recognising revenue when/as performance obligations are satisfied.

Revenue is recognised only when (or as) the Group satisfies a performance obligation by transferring control of the promised goods or services to a customer.

The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
(ii) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(iii) the Group's performance does not create an asset with an alternative use to the Group and has an enforceable right to payment for performance completed to date.

Sale of fabricated sheet metal products

The Group designs, manufactures and fabricates precision sheet metal products based on customers' orders received. Revenue is recognised at a point in time when the transfer of control of the goods have been passed to the buyer, i.e. generally when the customer has acknowledged delivery of the goods.

Variable considerations

The Group provides retrospective volume rebates and prompt payment discounts to certain customers once the quantity of products sold during the period exceeds a threshold or when the customers make payment of outstanding invoices within a period specified in the contract. Rebates and discounts are offset against the transaction price. To estimate the variable consideration for the expected future rebates, the Group applies the expected value method for contracts with more than one volume threshold or with numerous discount band. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds or discount bands contained in the contract. The Group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability for the expected future rebates.

Contract balances

This refers to the closing balances of trade receivables as at the reporting period.

Trade receivables

A receivable represents the Group's right to receive an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

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3. **ACCOUNTING POLICIES (CONT'D)**

3.9 **Revenue Recognition (cont'd)**

Other income

Interest income

Interest income is recognised as it accrues, using the applicable effective interest rate.

Rental income

Rental income is recognised on a time proportion basis over the lease term.

3.10 **Employee Benefits**

Short term benefits

Wages, salaries, bonuses and social security contributions are recognised as an expense in the financial year in which the associated services are rendered by employees of the Group. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences, and short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

Defined contribution plan

As required by law, companies in Malaysia make contributions to the national pension scheme, the Employees Provident Fund ("EPF"). Such contributions are recognised as an expense in the profit or loss as incurred.

3.11 **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

Other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurred in connection with the borrowing of funds.

3.12 **Foreign Currency Translations**

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities measured at historical cost in a foreign currency at the end of the reporting period are translated to the functional currency at the exchange rate at the date of the transaction except for those measured at fair value shall be translated at the exchange rate at the date when the fair value was determined.

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3. **ACCOUNTING POLICIES (CONT'D)**

3.12 **Foreign Currency Translations (cont'd)**

Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are recognised in profit or loss.

Exchange differences arising on the translation of non-monetary items carried at fair value are included in profit or loss for the period except for the differences arising on the translation of non-monetary items in respect of which gains or losses are recognised directly in other comprehensive income.

3.13 **Income Tax**

Income tax expense comprises current and deferred tax. Current tax 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.

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

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their tax bases. Deferred tax is not recognised for temporary differences arising from the initial recognition of goodwill and assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the end of the reporting period.

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.14 **Goods and Services Tax ("GST") and Sales and Service Tax ("SST")**

GST is a consumption tax based on the value-added concept. GST is imposed on goods and services at every production and distribution stage in the supply chain including importation of goods and services, at the applicable tax rate of 6%. Input tax that a company pays on business purchases is offset against output tax.

Revenue, expenses and assets are recognised net of GST except:

- where the GST incurred in a purchase of asset or service is not recoverable from the authority, in which case the GST 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 GST inclusive.

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3. **ACCOUNTING POLICIES (CONT'D)**

3.14 **Goods and Services Tax ("GST") and Sales and Service Tax ("SST") (cont'd)**

The net GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

The Finance Ministry has zero rated the GST effective from 1 June 2018. The government has replaced the GST with SST which came into effect on 1 September 2018. The rate for sales tax is fixed at 5% or 10%, while the rate for service tax is fixed at 6%.

Expenses and assets are recognised net of the amount of sales tax, except:

- when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and

- when receivables and payables are stated with the amount of sales tax included.

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

3.15 **Share Capital and Dividends**

Classification

Ordinary shares are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

Share issuance costs

Incremental external costs directly attributable to the issuance of new shares are deducted against equity.

Dividends

Dividends on ordinary shares are accounted for in shareholders' equity as an appropriation of retained profits and recognised as a liability in the period in which they are declared or approved.

3.16 **Earnings Per Ordinary Share**

The Group presents basic earnings per share data for its ordinary shares ("EPS").

Basic EPS is calculated by dividing the profit or loss attribute to shareholders of the Company by the weighted average number of ordinary shares in issue during the financial period, adjusted for own shares held.

3.17 **Operating Segments**

Operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segment results are reviewed regularly by the chief operating decision makers, which in this case are the Executive Chairman and Managing Director of the Group, to make decision about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

3. **ACCOUNTING POLICIES (CONT'D)**

3.18 **Related Parties**

A related party is a person or entity that is related to the Group. A related party transaction is a transfer of resources, services or obligations between the Group and its related party, regardless of whether a price is charged.

(a) A person or a close member of that person's family is related to the Company if that person:

(i) Has control or joint control over the Group;
(ii) Has significant influence over the Group; or
(iii) Is a member of the key management personnel of the Group including its ultimate holding company.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group.
(ii) The entity is an associate or joint venture of the other entity.
(iii) Both entities are joint ventures of the same third party.
(iv) The entity is a joint venture of a third entity and the other entity is an associate of the same third entity.
(v) The entity is a post-employment benefit plan for the benefits of employees of either the Group or an entity related to the Group.
(vi) The entity is controlled or jointly-controlled by a person identified in (a) above.
(vii) A person identified in (a)(i) above has significant influence over the Group or is a member of the key management personnel of the entity.
(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group.

3.19 **Government Grants**

Government grants, including non-monetary grants, shall not be recognised until there is reasonable assurance attaching to the grants will be complied with and the grants will be received.

Grants related to assets are set up as deferred income and recognised as income on a systematic basis over the estimated useful lives of the assets. Grants related to expenses are recognised as income in the period the grants become receivable. Grants related to future costs are deferred and recognised in the profit or loss in the same period as the related costs.

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4. PROPERTY, PLANT AND EQUIPMENT

Cost	Freehold land RM	Freehold buildings RM	Machinery, equipment and tooling RM	Furniture, fittings and office equipment RM	Renovation RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
At 1.1.2018	1,454,696	7,919,407	29,022,985	3,631,580	82,360	320,679	37,100	42,468,807
Additions	3,712,176	219,520	1,079,183	802,755	47,750	40,634	-	5,902,018
Disposals	-	-	(331,902)	(30,700)	-	-	-	(362,602)
Written-off	-	-	(47,468)	(50,646)	-	-	-	(98,114)
At 31.12.2018/1.1.2019	5,166,872	8,138,927	29,722,798	4,352,989	130,110	361,313	37,100	47,910,109
Additions	13,654	-	1,545,440	422,633	-	-	90,257	2,071,984
Disposals	-	-	(868,000)	-	-	-	-	(868,000)
Written-off	-	-	(23,095)	-	-	-	-	(23,095)
At 31.12.2019/1.1.2020	5,180,526	8,138,927	30,377,143	4,775,622	130,110	361,313	127,357	49,090,998
Additions	-	23,541	4,486,407	590,718	121,772	395,217	302,259	5,919,914
Reclassification	-	80,732	14,960	-	-	-	(95,692)	-
Disposals	(310,130)	(828,145)	-	(33,414)	-	(90,686)	-	(1,262,375)
Written-off	-	-	(1,990,284)	(52,848)	-	-	-	(2,043,132)
At 31.12.2020/1.1.2021	4,870,396	7,415,055	32,888,226	5,280,078	251,882	665,844	333,924	51,705,405
Additions	-	-	688,691	343,818	-	-	1,600,812	2,633,321
Reclassification	-	-	-	12,322	-	-	(12,322)	-
Disposals	-	-	(424,000)	-	-	-	-	(424,000)
Written-off	-	-	(56,000)	-	-	-	-	(56,000)
At 30.6.2021	4,870,396	7,415,055	33,096,917	5,636,218	251,882	665,844	1,922,414	53,858,726

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

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

	Freehold land RM	Freehold buildings RM	Machinery, equipment and tooling RM	Furniture, fittings and office equipment RM	Renovation RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
Accumulated depreciation								
At 1.1.2018	-	1,991,178	19,165,569	3,158,204	78,124	320,679	-	24,713,754
Current charge	-	160,857	1,783,311	335,551	11,278	2,709	-	2,293,706
Disposals	-	-	(331,902)	(30,700)	-	-	-	(362,602)
Written-off	-	-	(47,468)	(50,646)	-	-	-	(98,114)
At 31.12.2018/1.1.2019	-	2,152,035	20,569,510	3,412,409	89,402	323,388	-	26,546,744
Current charge	-	162,779	1,996,887	463,956	16,750	8,127	-	2,648,499
Disposals	-	-	(868,000)	-	-	-	-	(868,000)
Written-off	-	-	(23,095)	-	-	-	-	(23,095)
At 31.12.2019/1.1.2020	-	2,314,814	21,675,302	3,876,365	106,152	331,515	-	28,304,148
Current charge	-	163,606	2,046,744	543,000	40,241	56,615	-	2,850,206
Disposals	-	(215,318)	-	(33,414)	-	(90,686)	-	(339,418)
Written-off	-	-	(1,990,284)	(52,848)	-	-	-	(2,043,132)
At 31.12.2020/1.1.2021	-	2,263,102	21,731,762	4,333,103	146,393	297,444	-	28,771,804
Current charge	-	74,151	1,079,918	277,166	24,855	43,586	-	1,499,676
Disposals	-	-	(392,000)	-	-	-	-	(392,000)
Written-off	-	-	(56,000)	-	-	-	-	(56,000)
At 30.6.2021	-	2,337,253	22,363,680	4,610,269	171,248	341,030	-	29,823,480

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

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

	Freehold land RM	Freehold buildings RM	Machinery, equipment and tooling RM	Furniture, fittings and office equipment RM	Renovation RM	Motor vehicles RM	Capital work-in-progress RM	Total RM
Net carrying amount								
As at 31.12.2018	5,166,872	5,986,892	9,153,288	940,580	40,708	37,925	37,100	21,363,365
As at 31.12.2019	5,180,526	5,824,113	8,701,841	899,257	23,958	29,798	127,357	20,786,850
As at 31.12.2020	4,870,396	5,151,953	11,156,464	946,975	105,489	368,400	333,924	22,933,601
As at 30.6.2021	4,870,396	5,077,802	10,733,237	1,025,949	80,634	324,814	1,922,414	24,035,246

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

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

(i) The carrying amount of property pledged to financial institutions for facilities granted to the combining entity are as follows:

	Audited			
	30.6.2021	**31.12.2020**	**31.12.2019**	**31.12.2018**
	RM	**RM**	**RM**	**RM**
Freehold land	4,870,396	4,870,396	5,180,526	1,454,696
Freehold buildings	5,077,802	5,151,953	5,824,113	5,986,892
	9,948,198	10,022,349	11,004,639	7,441,588

(ii) The information of the right-of-use assets included under property, plant and equipment is as follows:

	Audited			
	30.6.2021	**31.12.2020**	**31.12.2019**	**31.12.2018**
	RM	**RM**	**RM**	**RM**
Machinery and equipment	7,665,673	4,200,237	4,949,810	5,232,891

These right-of-use assets are acquired under hire purchase loans.

(iii) The carrying amount of machinery and equipment acquired under capital grant are as follows:

	Audited			
	30.6.2021	**31.12.2020**	**31.12.2019**	**31.12.2018**
	RM	**RM**	**RM**	**RM**
Machinery and equipment	4,609,010	5,046,986	5,922,939	6,798,891

5. RIGHT-OF-USE ASSET AND LEASE LIABILITY

For the financial year ended 31.12.2020, the Group entered into a lease contract for rental of premise used in its operations for a lease term of 3 years.

The Group also has short term lease of 12 months for rental of a premise. The lease payments are charged to profit or loss as lease rental on the straight-line basis over the lease term.

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5. **RIGHT-OF-USE ASSET AND LEASE LIABILITY (CONT'D)**

Right-of-use asset

Set out below is the carrying amount of right-of-use asset and its movements during the financial year:

	Lease of warehouse			
	I---- Audited			----I
	30.6.2021 RM	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM
Balance at beginning	410,854	-	-	-
Addition	-	462,211	-	-
Depreciation	(77,035)	(51,357)	-	-
Balance at end	333,819	410,854	-	-

Lease liability

Set out below is the carrying amount of lease liability and its movements during the financial year:

	Lease of warehouse			
	I---- Audited			----I
	30.6.2021 RM	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM
Balance at beginning	414,037	-	-	-
Addition	-	462,211	-	-
Accretion of interest	9,097	7,026	-	-
Payments	(82,800)	(55,200)	-	-
Balance at end	340,334	414,037	-	-

	I---- Audited			----I
	30.6.2021 RM	31.12.2020 RM	31.12.2019 RM	31.12.2018 RM
Represented by:				
Non-current liabilities	187,589	264,866	-	-
Current liabilities	152,745	149,171	-	-
	340,334	414,037	-	-

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5. **RIGHT-OF-USE ASSET AND LEASE LIABILITY (CONT'D)**

The maturity analysis of lease liability is disclosed in Note 27 of the combined financial statements.

The following are the amounts recognised in profit or loss:

		Audited 30.6.2021 RM	Unaudited 30.6.2020 RM	I------------------------ Audited 31.12.2020 RM	------------------------ 31.12.2019 RM	I 31.12.2018 RM
Depreciation of right-of-use assets		(77,035)	-	(51,357)	-	-
Interest expense on lease liability		(9,097)	-	(7,026)	-	-
Expenses relating to short-term leases	(i)	(75,226)	(48,600)	(131,564)	(88,550)	(89,800)
Expenses relating to leases of low-value assets	(ii)	(27,223)	(10,034)	(35,396)	(13,428)	(21,613)
Income relating to lease of factory		-	40,800	81,600	101,400	108,000
		(188,581)	(17,834)	(143,743)	(578)	(3,413)

(i) The Group leases warehouse and hostel with contract term of less than 1 year. These leases are short term in nature and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

(ii) The Group leases various office equipment with contract terms of 5 years. These leases are low-value in nature and the Group elected not to recognise right-of-use assets and lease liabilities for these leases.

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6. INVENTORIES

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Raw materials	6,632,392	4,251,625	5,255,037	3,959,160
Work-in-progress	8,666,426	3,399,822	4,310,578	2,366,880
Finished goods	2,482,955	3,163,255	1,957,301	1,850,806
	17,781,773	10,814,702	11,522,916	8,176,846

Recognised in profit or loss:

	Audited	**Unaudited**	Audited		
	30.6.2021 RM	**30.6.2020 RM**	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Inventories recognised as cost of sales	30,117,495	30,951,487	61,437,915	43,875,638	42,481,512
Write-down to net realisable value					
- Addition	-	-	950,000	-	-
- Reversal	-	-	(24,452)	-	-

7. TRADE RECEIVABLES

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Trade receivables	22,611,006	18,521,466	16,662,343	13,454,262
Less: Allowance for expected credit loss	(100,471)	(100,471)	(100,471)	(100,471)
	22,510,535	18,420,995	16,561,872	13,353,791

The currency profile of trade receivables is as follows:-

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Ringgit Malaysia	3,572,072	3,416,730	3,427,386	3,906,246
US Dollar	18,938,463	15,004,265	13,134,486	9,447,545
	22,510,535	18,420,995	16,561,872	13,353,791

The normal credit terms granted to trade receivables throughout the financial period/years under review range from 30 to 90 days. Other credit terms are assessed and approved on a case-by-case basis.

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8. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Other receivables	1,101,729	559,391	739,789	336,238
Deposits	103,701	87,501	25,181	22,031
Prepayments	940,459	487,024	298,443	253,338
GST receivable	-	-	124,251	462,066
	2,145,889	1,133,916	1,187,664	1,073,673

The currency profile of other receivables, deposits and prepayments is as follows:

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Ringgit Malaysia	1,137,496	605,199	527,696	808,412
US Dollar	829,862	468,489	525,540	188,329
Singapore Dollar	178,531	57,452	134,428	76,932
Others	-	2,776	-	-
	2,145,889	1,133,916	1,187,664	1,073,673

9. CASH AND CASH EQUIVALENTS

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Short term deposit with a licensed bank	-	1,503,119	1,000,000	-
Fixed deposits with a licensed bank	2,857,052	1,023,052	1,334,000	-
Cash and bank balances	1,198,466	3,028,348	2,174,612	737,100
	4,055,518	5,554,519	4,508,612	737,100

The currency profile of cash and cash equivalents is as follows:

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Ringgit Malaysia	3,273,364	4,479,442	3,951,750	469,758
US Dollar	782,154	1,075,077	556,862	267,342
	4,055,518	5,554,519	4,508,612	737,100

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9. **CASH AND CASH EQUIVALENTS (CONT'D)**

The fixed deposits with a licensed bank of RM2,857,052 (31.12.2020: RM1,023,052; 31.12.2019: RM334,000; 31.12.2018: RMNil) have been pledged to a bank as securities for banking facilities granted to the Group as disclosed in the Note 12 to the financial statements.

The effective interest rates per annum of short term deposit and fixed deposits with a licensed bank at the end of the reporting period are as follows:

	Audited			
	30.6.2021	**31.12.2020**	**31.12.2019**	**31.12.2018**
	%	**%**	**%**	**%**
Short term deposit with a licensed bank	-	1.25	2.50	-
Fixed deposits with a licensed bank	1.70 to 1.85	1.70 to 2.10	3.27	-

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10. **SHARE CAPITAL AND INVESTED EQUITY**

(i) **Share capital**

	Audited							
	Number of shares 30.6.2021	**Amount 30.6.2021 RM**	**Number of shares 31.12.2020**	**Amount 31.12.2020 RM**	**Number of shares 31.12.2019**	**Amount 31.12.2019 RM**	**Number of shares 31.12.2018**	**Amount 31.12.2018 RM**
Issued and fully paid ordinary shares with no par value								
At the date of incorporation/end of financial year	1	1	1	1	-	-	-	-

(ii) **Invested equity**

	Audited							
	Number of shares 30.6.2021	**Amount 30.6.2021 RM**	**Number of shares 31.12.2020**	**Amount 31.12.2020 RM**	**Number of shares 31.12.2019**	**Amount 31.12.2019 RM**	**Number of shares 31.12.2018**	**Amount 31.12.2018 RM**
Issued and fully paid ordinary shares with no par value	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000

11. **RETAINED PROFITS**

The franking of dividends is under the single tier system and therefore there is no restriction to distribute dividends subject to the availability of retained profits.

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12. **BORROWINGS**

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Non-current liabilities				
Term loans				
Total amount payable	7,012,055	7,984,688	8,796,251	6,210,954
Amount due within one year included under current liabilities	(882,322)	(932,612)	(790,128)	(695,212)
	6,129,733	7,052,076	8,006,123	5,515,742
Hire purchase loans				
Total amount payable	6,384,539	2,392,279	2,852,764	2,695,526
Future finance charges	(796,478)	(175,363)	(228,540)	(239,942)
	5,588,061	2,216,916	2,624,224	2,455,584
Amount due within one year included under current liabilities	(1,396,719)	(833,251)	(816,002)	(620,583)
	4,191,342	1,383,665	1,808,222	1,835,001
	10,321,075	8,435,741	9,814,345	7,350,743
Current liabilities				
Bank overdraft	-	-	24,239	-
Bankers' acceptance	5,103,103	4,966,000	2,138,000	452,000
Hire purchase loans	1,396,719	833,251	816,002	620,583
Term loans	882,322	932,612	790,128	695,212
	7,382,144	6,731,863	3,768,369	1,767,795

The borrowings (except for hire purchase loans) are secured by way of:

(i) first legal charge over the freehold land and buildings of CSM;
(ii) jointly and severally guaranteed by certain directors of the CSM;
(iii) corporate guarantee by Armour Holdings Sdn. Bhd. (formerly known as Coraza Holdings Sdn. Bhd.) (the former holding company of CSM); and
(iv) fixed deposits with a licensed bank of the Group as disclosed in Note 9 to the financial statements

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12. **BORROWINGS (CONT'D)**

A summary of the effective interest rates and the maturities of the borrowings are as follows:

	Effective interest rate per annum (%)	Total RM	Within one year RM	More than one year and less than two years RM	More than two years and less than five years RM	More than five years RM
Audited 30.6.2021						
Bankers' acceptance	1.97 to 2.54	5,103,103	5,103,103	-	-	-
Hire purchase loans	2.47 to 3.19	5,588,061	1,396,719	1,309,944	2,223,823	657,575
Term loans	2.45 to 3.37	7,012,055	882,322	873,015	2,541,810	2,714,908
Audited 31.12.2020						
Bankers' acceptance	1.97 to 2.54	4,966,000	4,966,000	-	-	-
Hire purchase loans	2.47	2,216,916	833,251	858,846	524,819	-
Term loans	2.45 to 3.37	7,984,688	932,612	960,676	2,876,470	3,214,930
Audited 31.12.2019						
Bank overdraft	6.15	24,239	24,239	-	-	-
Bankers' acceptance	3.41 to 3.89	2,138,000	2,138,000	-	-	-
Hire purchase loans	2.47	2,624,224	816,002	848,642	959,580	-
Term loans	2.45 to 4.70	8,796,251	790,128	898,242	2,774,977	4,332,904
Audited 31.12.2018						
Bankers' acceptance	4.02 to 4.06	452,000	452,000	-	-	-
Hire purchase loans	2.47	2,455,584	620,583	645,407	1,189,594	-
Term loans	4.87	6,210,954	695,212	729,784	2,342,491	2,443,467

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13. DEFERRED INCOME

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Balance at beginning	1,794,120	2,130,140	2,466,160	777,000
Addition	-	-	-	2,250,200
Released to profit or loss	(168,010)	(336,020)	(336,020)	(561,040)
Balance at end	1,626,110	1,794,120	2,130,140	2,466,160

The Group was awarded a government grant from Malaysian Investment Development Authority ("MIDA") for the reimbursement of capital expenditure on modernisation of specified machineries and equipment. Deferred income is released to profit or loss over the periods to match the related cost which the grant is intended to compensate, on a systematic basis.

14. DEFERRED TAX LIABILITIES

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Balance at beginning	928,000	1,149,000	1,060,000	1,082,000
Transfer from/(to) profit or loss	152,000	(140,000)	(42,000)	6,000
	1,080,000	1,009,000	1,018,000	1,088,000
Under/(Over) provision in prior years	(109,000)	(81,000)	131,000	(28,000)
Balance at end	971,000	928,000	1,149,000	1,060,000

The temporary differences on which deferred tax liabilities have been provided for are in respect of the excess of capital allowances over depreciation on property, plant and equipment.

15. TRADE PAYABLES

The currency profile of trade payables is as follows:

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Ringgit Malaysia	8,406,983	4,964,651	5,800,927	4,495,424
US Dollar	385,175	613,049	1,049,050	683,678
Others	57,892	21,698	4,165	12,413
	8,850,050	5,599,398	6,854,142	5,191,515

Trade payables are non-interest bearing and are normally range from 30 to 90 days term throughout the financial period/years under review.

Included herein is an amount of RMNil (31.12.2020: RM319,627; 31.12.2019: RMNil; 31.12.2018: RM4,287) due to a company in which the directors of the combining entity have substantial financial interests.

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16. OTHER PAYABLES AND ACCRUALS

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Other payables	222,451	198,673	131,572	133,898
Deposits	40,000	60,400	20,400	27,000
Accruals	6,168,267	5,838,926	2,838,722	3,123,549
	6,430,718	6,097,999	2,990,694	3,284,447

The currency profile of other payables and accrual is as follows:

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Ringgit Malaysia	6,430,718	6,097,734	2,990,429	3,284,182
Singapore Dollar	-	265	265	265
	6,430,718	6,097,999	2,990,694	3,284,447

17. REFUND LIABILITIES

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Prompt payment rebates	16,000	16,000	-	-
Volume rebates	179,000	179,000	75,000	-
	195,000	195,000	75,000	-

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Movement of refund liabilities:				
Balance at beginning	195,000	75,000	-	-
Current year expected rebates	130,056	659,169	295,895	-
Reversal of refund liabilities	(10,689)	-	-	-
Set-off against receivables	(119,367)	(539,169)	(220,895)	-
Balance at end	195,000	195,000	75,000	-

The rebates are expected to be settled within one year.

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18. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, non-interest bearing and repayable on demand.

19. REVENUE

19.1 Disaggregated revenue information

	Audited	Unaudited	I------------------------- Audited	-------------------------	-------------------------I
	1.1.2021 to 30.6.2021 RM	1.1.2020 to 30.6.2020 RM	1.1.2020 to 31.12.2020 RM	1.1.2019 to 31.12.2019 RM	1.1.2018 to 31.12.2018 RM
Type of revenue:					
Sale of fabricated sheet metal products	37,095,736	37,054,953	72,156,659	53,012,383	53,658,536
Sale of precision machine products	6,099,419	6,227,399	11,528,968	5,581,798	2,364,900
	43,195,155	43,282,352	83,685,627	58,594,181	56,023,436
By Geographical markets:					
Malaysia	26,733,959	32,418,534	59,178,604	41,357,474	41,646,115
Singapore	12,203,466	8,210,533	17,977,493	13,135,766	12,886,701
United states of America	3,363,349	1,433,414	3,985,732	1,209,992	514,961
China	16,079	1,132,265	1,639,338	84,924	76,546
European countries	720,941	26,213	756,567	2,044,104	855,265
Other Asian countries	157,361	61,393	147,893	761,921	43,848
	43,195,155	43,282,352	83,685,627	58,594,181	56,023,436

Revenue is recognised at a point in time when the control of the goods or services are transferred to the customer. The amount of revenue recognised is adjusted for discounts and rebates.

19.2 Contract balances

The Group's contract balances include trade receivables and refund liabilities of which their respective balances are disclosed in Notes 7 and 17 to the combined financial statements.

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20. PROFIT BEFORE TAXATION

This is arrived at:

	Audited	Unaudited	I---------- Audited	----------	----------I
	1.1.2021 to 30.6.2021 RM	1.1.2020 to 30.6.2020 RM	1.1.2020 to 31.12.2020 RM	1.1.2019 to 31.12.2019 RM	1.1.2018 to 31.12.2018 RM
After charging/ (crediting):					
Depreciation					
property, plant and equipment	1,499,676	1,347,964	2,850,206	2,648,499	2,293,706
right-of-use asset	77,035	-	51,357	-	-
Directors' fee	25,000	120,000	340,000	240,000	350,000
Interest expense on:					
- bank overdraft	1,352	13,870	14,222	10,886	-
- bankers' acceptance	80,201	56,133	124,346	74,769	22,349
- hire purchase loans	121,716	28,947	53,177	112,324	122,092
- lease liability	9,097	-	7,026	-	-
- term loans	136,365	92,740	316,360	327,580	316,883
Loss/(gain) on foreign exchange					
- realised	177,989	(645,641)	394,885	(78,859)	67,937
- unrealised	(660,786)	129,695	471,825	138,240	(186,795)
Rental of equipment	9,183	9,954	21,316	12,228	21,513
Rental of forklift	18,040	80	14,080	1,200	100
Rental of hostel	51,070	36,600	88,760	86,550	82,600
Rental of warehouse	24,156	12,000	42,804	2,000	7,200
Staff costs*	12,298,802	11,354,499	22,187,930	16,522,310	14,145,531
Deferred income released	(168,010)	(168,010)	(336,020)	(336,020)	(561,040)
Gain on disposal of property, plant and equipment	(46,000)	(15,800)	(1,892,903)	(7,103)	(20,800)
Interest income	(22,998)	(29,808)	(75,579)	(84,152)	(95,878)
Rental income	-	(40,800)	(81,600)	(101,400)	(108,000)

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20. PROFIT BEFORE TAXATION (CONT'D)

	Audited	Unaudited	I-------------	Audited	-------------I
	1.1.2021 to 30.6.2021 RM	1.1.2020 to 30.6.2020 RM	1.1.2020 to 31.12.2020 RM	1.1.2019 to 31.12.2019 RM	1.1.2018 to 31.12.2018 RM
* Staff costs					
- Salaries, allowance, overtime, profit sharing and bonus	11,276,221	10,578,572	20,434,218	15,265,802	13,056,372
- EPF	864,278	653,942	1,486,005	1,076,989	955,792
- SOCSO	144,443	111,707	244,687	163,335	119,884
- EIS	13,860	10,278	23,020	16,184	13,483
	12,298,802	11,354,499	22,187,930	16,522,310	14,145,531

Included in staff costs of the Group are directors' emoluments as shown below:

Directors' emoluments					
- Salaries, allowance and profit sharing	271,500	150,000	962,200	652,800	671,000
- EPF	12,858	6,000	42,488	30,112	80,520
	284,358	156,000	1,004,688	682,912	751,520

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21. **TAXATION**

	Audited	Unaudited	I---------- Audited	----------	----------I
	1.1.2021 to 30.6.2021 RM	**1.1.2020 to 30.6.2020 RM**	**1.1.2020 to 31.12.2020 RM**	**1.1.2019 to 31.12.2019 RM**	**1.1.2018 to 31.12.2018 RM**
Malaysia income tax:					
Based on results for the financial period/year					
Current tax	(1,715,804)	(1,030,372)	(1,736,000)	(945,000)	(1,110,000)
Deferred tax relating to the origination and reversal of temporary differences	(152,000)	70,000	140,000	42,000	(6,000)
	(1,867,804)	(960,372)	(1,596,000)	(903,000)	(1,116,000)
Real property gains tax	-	-	(166,173)	-	-
Over/(Under) provision in prior years					
Current tax	43,000	(803,021)	(803,021)	90,349	(376,999)
Deferred tax	109,000	81,000	81,000	(131,000)	28,000
Real property gains tax	1,068	-	-	-	-
	153,068	(722,021)	(722,021)	(40,651)	(348,999)
	(1,714,736)	(1,682,393)	(2,484,194)	(943,651)	(1,464,999)

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21. TAXATION

The reconciliation of tax expense of the Group is as follows:

	Audited 1.1.2021 to 30.6.2021 RM	Unaudited 1.1.2020 to 30.6.2020 RM	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2019 to 31.12.2019 RM	Audited 1.1.2018 to 31.12.2018 RM
Profit before taxation	7,126,323	7,009,973	10,499,964	4,360,059	4,915,920
Income tax at Malaysia statutory tax rate of 24%	(1,710,318)	(1,682,394)	(2,519,991)	(1,046,414)	(1,179,821)
Income not subject to tax	40,322	479,459	479,459	80,645	139,659
Expenses not deductible for tax purpose	(233,088)	(20,903)	(82,400)	(306,563)	(312,740)
Utilisation of reinvestment allowance	35,280	263,466	526,932	334,332	206,902
Reduced tax rate on the first RM500,000 chargeable income	-	-	-	35,000	30,000
	(1,867,804)	(960,372)	(1,596,000)	(903,000)	(1,116,000)
Real property gains tax	-	-	(166,173)	-	-
Over/(Under) provision in prior years	153,068	(722,021)	(722,021)	(40,651)	(348,999)
	(1,714,736)	(1,682,393)	(2,484,194)	(943,651)	(1,464,999)

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

22. EARNINGS PER SHARE

Basic earnings per ordinary share

The calculation of basic earnings per ordinary share for the financial period/year ended 30.6.2021, 30.6.2020, 31.12.2020, 31.12.2019 and 31.12.2018 was based on the profit attributable to shareholder of the combining entity and its weighted average number of shares in issue during the said financial period/years as follows:

	Audited	Unaudited	I------------------------- Audited		------------------------I
	1.1.2021 to 30.6.2021 RM	1.1.2020 to 30.6.2020 RM	1.1.2020 to 31.12.2020 RM	1.1.2019 to 31.12.2019 RM	1.1.2018 to 31.12.2018 RM
Profit for the financial year attributable to the shareholder of the combining entity	5,411,587	5,327,580	8,015,770	3,416,408	3,450,921
Weighted average number of shares in issue*	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Basic earnings per ordinary share (sen)	2.16	2.13	3.21	1.37	1.38

There were no dilutive equity instruments in issue during the above financial period/years that have a dilutive effect on the EPS.

*Denotes the ordinary shares in issue of CSM.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

23. DIVIDENDS

	Audited	Unaudited	I------------------------- Audited	-------------------------	-------------------------I
	1.1.2021 to 30.6.2021 RM	1.1.2020 to 30.6.2020 RM	1.1.2020 to 31.12.2020 RM	1.1.2019 to 31.12.2019 RM	1.1.2018 to 31.12.2018 RM
Dividends paid by the combining entity:					
First interim dividend of RM1.00 per share	-	-	2,500,000	-	-
Second interim dividend of RM0.60 per share	-	-	1,500,000	-	-
Third interim dividend of RM1.12 per share	-	-	2,800,000	-	-
	-	-	6,800,000	-	-

24. OPERATING SEGMENT

The Group is organised into two business units based on their products and services which comprise fabrication of sheet metal and precision machining.

Management monitors its business units separately up to gross profit level for the purpose of making decision about performance assessment. Information about segmental assets and liabilities are not presented to the decision makers by management.

	Audited	Unaudited	I------------------------- Audited	-------------------------	-------------------------I
	1.1.2021 to 30.6.2021 RM	1.1.2020 to 30.6.2020 RM	1.1.2020 to 31.12.2020 RM	1.1.2019 to 31.12.2019 RM	1.1.2018 to 31.12.2018 RM
Revenue					
Fabrication of sheet metal	37,095,736	37,054,953	72,156,659	53,012,383	53,658,536
Precision machining	6,099,419	6,227,399	11,528,968	5,581,798	2,364,900
Total revenue	43,195,155	43,282,352	83,685,627	58,594,181	56,023,436

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24. **OPERATING SEGMENT (CONT'D)**

	Audited 1.1.2021 to 30.6.2021 RM	Unaudited 1.1.2020 to 30.6.2020 RM	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2019 to 31.12.2019 RM	Audited 1.1.2018 to 31.12.2018 RM
Cost of goods sold					
Fabrication of sheet metal	(25,420,942)	(26,006,139)	(53,505,430)	(39,521,740)	(40,636,890)
Precision machining	(4,696,553)	(4,945,348)	(8,858,033)	(4,353,898)	(1,844,622)
Total cost of goods sold	(30,117,495)	(30,951,487)	(62,363,463)	(43,875,638)	(42,481,512)

	Audited 1.1.2021 to 30.6.2021 RM	Unaudited 1.1.2020 to 30.6.2020 RM	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2019 to 31.12.2019 RM	Audited 1.1.2018 to 31.12.2018 RM
Gross profit					
Fabrication of sheet metal	11,674,794	11,048,814	18,651,229	13,490,643	13,021,646
Precision machining	1,402,866	1,282,051	2,670,935	1,227,900	520,278
Total gross profit	13,077,660	12,330,865	21,322,164	14,718,543	13,541,924

Geographical segments

Revenue of the Group based on geographical location of its customers are disclosed in Note 19 to the combined financial statements.

The Group's non-current assets are entirely located in Malaysia.

Major customers

The following are major customers with revenue equal to or more than 10% of the Group revenue for the relevant reporting periods:

	Audited 1.1.2021 to 30.6.2021 RM	Unaudited 1.1.2020 to 30.6.2020 RM	Audited 1.1.2020 to 31.12.2020 RM	Audited 1.1.2019 to 31.12.2019 RM	Audited 1.1.2018 to 31.12.2018 RM
Customer A	15,343,420	19,544,911	37,039,499	21,754,366	25,818,024
Customer B	8,039,970	9,817,246	16,080,220	13,637,591	8,366,927
Customer C	5,346,806	5,187,106	10,260,210	9,049,492	8,867,418
	28,730,196	34,549,263	63,379,929	44,441,449	43,052,369

A customer is defined as a company or a group of companies having the same ultimate holding company.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

25. **RELATED PARTY DISCLOSURES**

(i) **Identity of related parties**

Related parties

(a) The following companies are related parties as they relate to companies in which the directors of the combining entity have substantial financial interest.

- Armour Holdings Sdn. Bhd. (formerly known as Coraza Holdings Sdn. Bhd.)
- Kalungan Prestij Sdn. Bhd.
- Surface Technology Solutions Sdn. Bhd.
- Unigen Corporation
- Unigen Vietnam Hanoi Co., Ltd

(b) The following companies are related parties as they relate to companies in which a former director of the combining entity has substantial financial interest. The below companies ceased to be related parties effective on 1 January 2021, being the resignation of the former director is effective on the said date.

- Allen Chee Ram
- Fastrack Corporate Sdn. Bhd.

(ii) **Related party transactions with category (a) as listed above**

	Audited	Unaudited	I-------------------------	Audited	-------------------------I
	1.1.2021 to 30.6.2021 RM	1.1.2020 to 30.6.2020 RM	1.1.2020 to 31.12.2020 RM	1.1.2019 to 31.12.2019 RM	1.1.2018 to 31.12.2018 RM
Sales	250,634	293,526	721,659	756,804	-
Purchases	(894,354)	(1,472,257)	(2,112,715)	(1,200,520)	(750,801)
Sale of property	-	-	2,800,000	-	-
Sale of machinery	32,000	-	-	-	-
Dividend	-	-	(6,800,000)	-	-
Rental income	-	40,800	81,600	101,400	45,000
Rental expense	(12,000)	(12,000)	(24,000)	(2,000)	-

(iii) **Related party transactions with category (b) as listed above**

	Audited	Unaudited	I-------------------------	Audited	-------------------------I
	1.1.2021 to 30.6.2021 RM	1.1.2020 to 30.6.2020 RM	1.1.2020 to 31.12.2020 RM	1.1.2019 to 31.12.2019 RM	1.1.2018 to 31.12.2018 RM
Secretarial fee	-	3,159	4,466	5,621	13,137
Legal fee	-	3,434	3,434	16,088	10,529

(iv) **Compensation of key management personnel**

The Group has no other members of key management personnel apart from the Board of Directors which compensation has been shown in Note 20 to the combined financial statements.

Key management personnel are those persons including directors having authority and responsibility for planning, directing and controlling the activities of the Group and of the Company, directly or indirectly.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

26. CAPITAL COMMITMENT

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Contracted but not provided for				
Property, plant and equipment	3,990,956	458,814	-	-
Approved but not contracted for				
Property, plant and equipment	16,230,954	-	-	-

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

27. FINANCIAL INSTRUMENTS

27.1 Categories of financial instruments

The table below provides an analysis of financial instruments categorised as financial assets and financial liabilities at amortised costs ("AC").

	Audited							
	30.6.2021		31.12.2020		31.12.2019		31.12.2018	
	Carrying amount RM	AC RM	Carrying amount RM	AC RM	Carrying amount RM	AC RM	Carrying amount RM	AC RM
Financial assets								
Trade receivables	22,510,535	22,510,535	18,420,995	18,420,995	16,561,872	16,561,872	13,353,791	13,353,791
Other receivables and deposits	1,205,430	1,205,430	646,892	646,892	764,970	764,970	358,269	358,269
Cash and cash equivalents	4,055,518	4,055,518	5,554,519	5,554,519	4,508,612	4,508,612	737,100	737,100
	27,771,483	27,771,483	24,622,406	24,622,406	21,835,454	21,835,454	14,449,160	14,449,160
Financial liabilities								
Trade payables	8,850,050	8,850,050	5,599,398	5,599,398	6,854,142	6,854,142	5,191,515	5,191,515
Other payables and accruals	6,430,718	6,430,718	6,097,999	6,097,999	2,990,694	2,990,694	3,284,447	3,284,447
Amount due to a director	3,109	3,109	3,109	3,109	-	-	-	-
Borrowings	17,703,219	17,703,219	15,167,604	15,167,604	13,582,714	13,582,714	9,118,538	9,118,538
	32,987,096	32,987,096	26,868,110	26,868,110	23,427,550	23,427,550	17,594,500	17,594,500

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

27. **FINANCIAL INSTRUMENTS (CONT'D)**

27.2 **Financial risk management**

The Group's financial risk management policy seeks to ensure that adequate resources are available for the development of the Group's business whilst managing its credit risk, liquidity risk, interest rate risk and foreign currency risk.

The Group operates within clearly defined guidelines that are approved by the Board and the Group's policy is not to engage in speculative transactions.

27.3 **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's exposure to credit risk arises principally from its trade receivables.

(i) **Credit risk concentration profile**

The Group's major concentration of credit risk that accounted for 10% or more of total trade receivables at the end of each reporting period is as follows:

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Number of customers	2	2	2	2
Percentage of trade receivables	66%	76%	75%	71%

(ii) **Exposure to credit risk**

At the end of each reporting period, the maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the combined statements of financial position of the Group after deducting any allowance for impairment losses.

(iii) **Assessment of impairment losses**

The Group assesses ECL on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales in the past as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. At each reporting date, the historical default rates are updated and changes in the forward-looking estimates are analysed. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

As at the end of the reporting period, the maximum exposure to the credit risk arising from trade receivables is presented by the carrying amounts in the combined statements of financial position.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

27. **FINANCIAL INSTRUMENTS (CONT'D)**

27.3 **Credit risk (cont'd)**

(iii) **Assessment of impairment losses (cont'd)**

The ageing of trade receivables of the Group as at 30.6.2021, 31.12.2020, 31.12.2019 and 31.12.2018 are as follows:

	Gross RM	Expected credit loss RM	Net RM
Audited 30.6.2021			
Not past due	17,253,720	-	17,253,720
Past due 1 to 30 days	4,699,306	-	4,699,306
Past due 31 to 60 days	186,690	-	186,690
Past due 61 to 90 days	249,538	-	249,538
Past due 91 to 120 days	17,525	-	17,525
Past due more than 120 days	204,227	(100,471)	103,756
	5,357,286	(100,471)	5,256,815
	22,611,006	(100,471)	22,510,535
Audited 31.12.2020			
Not past due	13,161,486	-	13,161,486
Past due 1 to 30 days	4,686,348	-	4,686,348
Past due 31 to 60 days	207,579	-	207,579
Past due 61 to 90 days	342,871	-	342,871
Past due 91 to 120 days	17,522	-	17,522
Past due more than 120 days	105,660	(100,471)	5,189
	5,359,980	(100,471)	5,259,509
	18,521,466	(100,471)	18,420,995

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

27. **FINANCIAL INSTRUMENTS (CONT'D)**

27.3 **Credit risk (cont'd)**

(iii) **Assessment of impairment losses (cont'd)**

	Gross RM	Expected credit loss RM	Net RM
Audited 31.12.2019			
Not past due	13,759,463	-	13,759,463
Past due 1 to 30 days	1,939,608	-	1,939,608
Past due 31 to 60 days	226,617	-	226,617
Past due 61 to 90 days	395,673	-	395,673
Past due 91 to 120 days	120,136	-	120,136
Past due more than 120 days	220,846	(100,471)	120,375
	2,902,880	(100,471)	2,802,409
	16,662,343	(100,471)	16,561,872
Audited 31.12.2018			
Not past due	10,330,955	-	10,330,955
Past due 1 to 30 days	1,891,917	-	1,891,917
Past due 31 to 60 days	333,422	-	333,422
Past due 61 to 90 days	461,718	-	461,718
Past due 91 to 120 days	198,485	-	198,485
Past due more than 120 days	237,765	(100,471)	137,294
	3,123,307	(100,471)	3,022,836
	13,454,262	(100,471)	13,353,791

Trade receivables that are neither past due nor impaired are creditworthy customers with good payment record with the Company. None of the Company's trade receivables that are neither past due nor impaired have been renegotiated over the financial period/years.

The Company has trade receivables amounting to RM5,256,815 (31.12.2020: RM5,259,509; 31.12.2019: RM2,802,409; 31.12.2018: RM3,022,836) that are past due at the end of the reporting period but management is of the view that these past due amounts will be collected in due course and no impairment is necessary.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

27. **FINANCIAL INSTRUMENTS (CONT'D)**

27.4 **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group actively manages its debt maturity profile, operating cash flows and availability of funding so as to ensure that all repayment and funding needs are met. As part of its overall prudent liquidity management, the Group maintains sufficient levels of cash and cash equivalents to meet its working capital requirements.

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period based on the undiscounted contractual payments:

	Carrying amount RM	Contractual cash flows RM	Within one year RM	More than one year and less than two years RM	More than two years and less than five years RM	More than five years RM
Audited 30.6.2021						
Non-derivative financial liabilities						
Interest bearing borrowings	17,703,219	20,422,776	7,882,274	2,599,294	5,529,854	4,411,354
Lease liability	340,334	340,334	340,334	-	-	-
Trade and other payables	15,280,768	15,280,768	15,280,768	-	-	-
Amount due to a director	3,109	3,109	3,109	-	-	-
	33,327,430	36,046,987	23,506,485	2,599,294	5,529,854	4,411,354
Audited 31.12.2020						
Non-derivative financial liabilities						
Interest bearing borrowings	15,167,604	17,466,964	7,095,200	2,124,873	3,962,191	4,284,700
Lease liability	414,037	441,600	165,600	276,000	-	-
Trade and other payables	11,697,397	11,697,397	11,697,397	-	-	-
Amount due to a director	3,109	3,109	3,109	-	-	-
	27,282,147	29,609,070	18,961,306	2,400,873	3,962,191	4,284,700
Audited 31.12.2019						
Non-derivative financial liabilities						
Interest bearing borrowings	13,582,714	16,400,158	4,211,329	2,129,200	4,490,947	5,568,682
Trade and other payables	9,844,836	9,844,836	9,844,836	-	-	-
	23,427,550	26,244,994	14,056,165	2,129,200	4,490,947	5,568,682

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

27. **FINANCIAL INSTRUMENTS (CONT'D)**

27.4 **Liquidity risk**

	Carrying amount RM	Contractual cash flows RM	Within one year RM	More than one year and less than two years RM	More than two years and less than five years RM	More than five years RM
Audited						
31.12.2018						
Non-derivative financial liabilities						
Interest bearing borrowings	9,118,538	10,619,008	2,153,007	1,701,007	4,133,699	2,631,295
Trade and other payables	8,475,962	8,475,962	8,475,962	-	-	-
	17,594,500	19,094,970	10,628,969	1,701,007	4,133,699	2,631,295

27.5 **Interest rate risk**

The Group's fixed rate instruments are exposed to a risk of change in their fair values due to changes in interest rates. The Group's floating rate instruments are exposed to a risk of change in cash flows due to changes in interest rates.

The interest rate profile of the Group's interest bearing financial instruments based on their carrying amount as at the end of the reporting period are as follows:

	I------------------------------------- Audited			------------------------------------I
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
Fixed rate instruments				
Financial assets	2,857,052	2,526,171	2,334,000	-
Financial liabilities	13,864,124	10,403,236	8,006,228	2,907,584
Floating rate instruments				
Financial liabilities	3,839,095	4,764,368	5,576,486	6,210,954

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and financial liabilities at fair value through profit or loss nor designates derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

An increase of 25 basis point at the end of the reporting period would have decreased the Group's profit before taxation by RM10,378 (31.12.2020: RM14,891; 31.12.2019: RM14,994; 31.12.2018: RM16,267) and a corresponding decrease would have an equal but opposite effect. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

27. **FINANCIAL INSTRUMENTS (CONT'D)**

27.6 **Foreign currency risk**

The Group is exposed to foreign currency risk mainly on sales and purchases that are denominated in currencies other than the Group's functional currency. The Group also holds cash and bank balances denominated in foreign currencies for working capital purposes. The currencies giving rise to this risk are primarily United States Dollar ("USD") and Singapore Dollar ("SGD").

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rates against Ringgit Malaysia, with all other variables held constant, of the Group's profit before taxation. A 10% strengthening of the RM against the following currencies at the end of the reporting period would have decreased profit before taxation by the amount shown below and a corresponding weakening of the RM would have an equal but opposite effect.

	Audited			
	30.6.2021 RM	**31.12.2020 RM**	**31.12.2019 RM**	**31.12.2018 RM**
USD	(2,016,530)	(1,593,478)	(1,316,784)	(921,954)
SGD	(17,853)	(5,719)	(13,416)	(7,667)
Others	5,789	1,892	417	1,241
Decrease in profit before taxation	(2,028,594)	(1,597,305)	(1,329,783)	(928,380)

28. **FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS**

The carrying amounts of the Group's financial assets and financial liabilities as at the end of the reporting period approximate their fair values due to their short-term nature or that they are floating rate instruments that are re-priced to market interest rates on or near the end of the reporting period.

The carrying amounts of the non-current portion of the hire purchase loans are reasonable approximation of fair value due to the insignificant impact of discounting.

29. **CAPITAL MANAGEMENT**

The primary objective of the Group's capital management policy is to maintain a strong capital base to support its business and to maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions or expansion of the Group. The Group may adjust the capital structure by issuing new shares, returning capital to shareholders, adjusting the amount of dividends to be paid to shareholders or sell assets to reduce debts. No changes were made to the objective, policy and process during the financial years under review.

As at the end of the reporting period, the Group has not breached any of the debt covenants imposed by its lenders.

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NOTES TO THE COMBINED FINANCIAL STATEMENTS (CONT'D)

30. **SIGNIFICANT EVENTS DURING AND AFTER THE REPORTING PERIOD**

Coronavirus outbreak

The World Health Organisation declared the 2019 Novel Coronavirus outbreak ("COVID-19") a pandemic on 11 March 2020. On 12 March 2020, the Malaysian Government has imposed the Movement Control Order ("MCO") starting from 18 March 2020 to curb the spread of the COVID-19 outbreak in Malaysia. The COVID-19 outbreak has resulted in travel restriction, lockdown and other precautionary measures imposed in various countries. The emergence of the COVID-19 outbreak since early 2020 has brought significant economic uncertainties in Malaysia and markets in which the Group operates.

The Group has assessed 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.

On 31 May 2021, the Group through its combining entity, CSM was issued a shutdown notice effective from 31 May 2021 by the Ministry of Health, Malaysia ("MOH") following 18% of it's employees tested positive for COVID-19. Following this incident, plant-wide sanitisation took place on 5 and 6 June 2021. Upon a follow up check by MOH, CSM was cleared to resume operations on 8 June 2021. The temporary shutdown period did not materially affect the operations nor did it have any significant financial implications other than the cost of COVID-19 tests, quarantine accommodation, sanitisation and disinfection activities amounting to RM178,000. The Group will continuously monitor the impact of COVID-19 and take appropriate and timely measures to minimise the effect of the outbreak on the Group's operations. The Group has sufficient working capital to sustain its operating for the next twelve months.

Re-organisation exercise and IPO

The details of the re-organisation exercise and IPO are disclosed in Note 1 to the combined financial statements.

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PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2021

GRANT THORNTON MALAYSIA PLT

CHARTERED ACCOUNTANTS

Member Firm of Grant Thornton International Ltd

GrantThornton

REPORTING ACCOUNTANTS' REPORT ON COMPILATION OF THE PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2021
(Prepared for inclusion in the Prospectus)

Grant Thornton Malaysia PLT
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Date: 26 November 2021

The Board of Directors
Coraza Integrated Technology Berhad
Lot 2777 Lorong Industri 5
Kawasan Industri Bukit Panchor
14300 Nibong Tebal
Seberang Perai Selatan
Penang

Dear Sirs,

CORAZA INTEGRATED TECHNOLOGY BERHAD
REPORT ON THE COMPILATION OF PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2021

We have completed our assurance engagement to report on the compilation of the Pro Forma Consolidated Statements of Financial Position of Coraza Integrated Technology Berhad ("Coraza" or "Company") and its subsidiary ("Coraza Group" or "Group") as at 30 June 2021, together with the notes and assumptions thereto (which we have stamped for the purpose of identification), have been compiled and prepared by the Directors of the Company for inclusion in the prospectus of the Company in connection with the initial public offering ("IPO") and the listing of and quotation for the entire issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Securities") ("the Listing").

The Pro Forma Consolidated Statements of Financial Position as at 30 June 2021 have been compiled by the Directors of the Company, for illustrative purposes only, to show the effects of the Listing on the Consolidated Statements of Financial Position presented had the Listing been effected and completed on that date. As part of this process, financial information about the Group's Consolidated Financial Position has been extracted by the Directors of the Company from the audited financial statements of the Company and the subsidiary as at 30 June 2021, on which the audit reports have been issued without modification.

Directors' Responsibility for the Pro Forma Consolidated Statements of Financial Position

The Directors of the Company are responsible for compiling the Pro Forma Consolidated Statements of Financial Position on the basis set out in the Notes to the Pro Forma Consolidated Statements of Financial Position ("Applicable Criteria").

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Reporting Accountants' Independence and Quality Control

We are independent in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board 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.

Our firm applies *International Standard on Quality Control ("ISQC") 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion about whether the Pro Forma Consolidated Statements of Financial Position have been properly compiled, in all material respect, by the Directors on the basis of 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 International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled, in all material respects, the Pro Forma Consolidated Statements of Financial Position on the basis of the Applicable Criteria.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any 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 effects as if the related events and/or the transactions have occurred and completed on 30 June 2021. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at that date would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis of the Applicable Criteria involves performing procedures to assess whether the Applicable Criteria used by the Directors in the compilation of the Pro Forma Consolidated Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions enumerated in the notes thereto, and to obtain sufficient appropriate evidence about whether:-

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Consolidated Statements of Financial Position reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the event or transaction in respect of which the Pro Forma Consolidated Statements of Financial Position have been compiled, and other relevant engagement circumstances.

GrantThornton

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.

Opinion

In our opinion, the Pro Forma Consolidated Statements of Financial Position have been compiled, in all material respects, on the basis set out in the Notes thereon to the Pro Forma Consolidated Statements of Financial Position and in accordance with requirements of the Prospectus Guidelines issued by the Securities Commission Malaysia.

Other Matter

Our report has been prepared at your request for inclusion in the Prospectus in connection with the IPO. It is not intended to be used for any other purposes. 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.

Grant Thornton Malaysia PLT
AF: 0737
201906003682 (LLP0022494-LCA)
Chartered Accountants

Terence Lau Han Wen
No. 03298/04/2023 J
Chartered Accountant

14. REPORTING ACCOUNTANTS' REPORT ON PRO FORMA CONSOLIDATED FINANCIAL INFORMATION *(Cont'd)*

CORAZA INTEGRATED TECHNOLOGY BERHAD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2021

The Pro Forma Consolidated Statements of Financial Position of Coraza Integrated Technology Berhad ("Coraza" or "Company") and its subsidiary ("Coraza Group" or "Group") as at 30 June 2021 as set out below are provided for illustrative purposes only to show the effects of the transactions as mentioned in Note 2 to the Pro Forma Consolidated Statements of Financial Position on the assumption that these transactions were completed on 30 June 2021, and should be read in conjunction with the notes accompanying to the Pro Forma Consolidated Statements of Financial Position.

	Note	Audited As at 30 June 2021	Pro Forma I After Internal Restructuring Exercise	Pro Forma II After IPO	Pro Forma III After Utilisation of Proceeds from IPO
		RM	RM	RM	RM
ASSETS					
Non-current assets					
Property, plant and equipment	3.1	-	24,035,246	24,035,246	62,003,246
Right-of-use asset		-	333,819	333,819	333,819
Total non-current assets		-	24,369,065	24,369,065	62,337,065
Current assets					
Inventories		-	17,781,773	17,781,773	17,781,773
Trade receivables		-	22,510,535	22,510,535	22,510,535
Other receivables, deposits and prepayments		-	2,145,889	2,145,889	2,145,889
Cash and cash equivalents	3.2	1	4,055,518	37,036,998	3,947,998
Total current assets		1	46,493,715	79,475,195	46,386,195
Total assets		**1**	**70,862,780**	**103,844,260**	**108,723,260**

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CORAZA INTEGRATED TECHNOLOGY BERHAD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2021 (CONT'D)

	Note	Audited As at 30 June 2021	Pro Forma I After Internal Restructuring Exercise	Pro Forma II After IPO	Pro Forma III After Utilisation of Proceeds from IPO
		RM	RM	RM	RM
EQUITY AND LIABILITIES					
Equity attributable to owners of the Company:					
Share capital	3.3	1	29,252,869	62,234,349	60,110,099
(Accumulated loss)/Retained profits	3.4	(27,967)	32,166,481	32,166,481	30,413,731
Merger reserve		-	(26,752,868)	(26,752,868)	(26,752,868)
Total equity		(27,966)	34,666,482	67,647,962	63,770,962
LIABILITIES					
Non-current liabilities					
Borrowings	3.5	-	10,321,075	10,321,075	19,870,798
Lease liability		-	187,589	187,589	187,589
Deferred income		-	1,626,110	1,626,110	1,626,110
Deferred tax liabilities		-	928,000	928,000	928,000
Total non-current liabilities		-	13,062,774	13,062,774	22,612,497

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CORAZA INTEGRATED TECHNOLOGY BERHAD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2021 (CONT'D)

	Note	Audited As at 30 June 2021	Pro Forma I After Internal Restructuring Exercise	Pro Forma II After IPO	Pro Forma III After Utilisation of Proceeds from IPO
		RM	RM	RM	RM
Current liabilities					
Trade payables		-	8,850,050	8,850,050	8,850,050
Other payables and accruals		24,858	6,430,718	6,430,718	6,430,718
Refund liabilities		-	195,000	195,000	195,000
Amount due to a director		3,109	3,109	3,109	3,109
Borrowings	3.5	-	7,382,144	7,382,144	6,588,421
Lease liability		-	152,745	152,745	152,745
Tax payables			119,758	119,758	119,758
Total current liabilities		27,967	23,133,524	23,133,524	22,339,801
Total liabilities		27,967	36,196,298	36,196,298	44,952,298
Total equity and liabilities		**1**	**70,862,780**	**103,844,260**	**108,723,260**
Issued ordinary shares		1	310,540,001	428,331,001	428,331,001
Net assets per share (RM)		(27,966)	0.11	0.16	0.15
Borrowings (RM)		-	17,703,219	17,703,219	22,547,219
Gearing (Times)		-	0.51	0.26	0.41

CORAZA INTEGRATED TECHNOLOGY BERHAD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2021 (CONT'D)

1. **BASIS OF PREPARATION**

The Pro Forma Consolidated Statements of Financial Position of Coraza have been prepared for illustrative purpose only after incorporating the transactions as detailed in Note 2 below on the assumption that the said transactions were effected and completed on 30 June 2021.

The Pro Forma Consolidated Statements of Financial Position have been prepared based on accounting policies and basis which are consistent with those disclosed in the audited Combined Financial Statements of Coraza, for the financial year ended 30 June 2021 and in accordance with Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of Chapter 9, Part II Division 1 : Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia ("SC").

Merger method of accounting

For the purpose of accounting for the acquisition of its subsidiary, Coraza Systems Malaysia Sdn. Bhd. ("CSM"), the Company has adopted the merger accounting principles as the consolidated entities are under common control by the same party before and after the Initial Public Offering. Under merger method of accounting, the difference between the cost of investment recorded by the Company (i.e. the consideration for the acquisition of CSM) and the share capital of CSM is accounted for as merger reserve, computed as follows:

	RM
Consideration for the acquisition of CSM	29,252,868
Less: Issued share capital of CSM as at 30 June 2021	(2,500,000)
Merger reserve	26,752,868

2. **LISTING SCHEME**

In conjunction with, and as an integral part of the Listing, the Company undertook the following:

(i) **Pro Forma I: Internal Restructuring Exercise**

The Internal Restructuring Exercise entails acquiring the entire equity interest of CSM, the combining entity for a total purchase consideration of RM29,252,868 satisfied via the issuance of 310,540,000 new Coraza shares at an issue price of RM0.0942 per share based on the net assets of CSM as at 31 December 2020. The acquisition was completed on 19 November 2021.

(ii) **Pro Forma II: Initial Public Offering ("IPO")**

(a) **Public Issue**

A total of 117,791,000 new Coraza ordinary shares ("Issued Shares") representing 27.5% of the enlarged share capital of Coraza are offered at an issue price of RM0.28 per share and shall be allocated in the following manner:

- 21,416,550 Issue Shares, representing 5.0% of the enlarged share capital are made available for application by the Malaysian Public,

- 21,416,550 Issue Shares, representing 5.0% of the enlarged share capital are reserved for the eligible Directors and employees, and

- 74,957,900 Issue Shares, representing 17.5% of the enlarged share capital are reserved for private placement to selected investors.

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CORAZA INTEGRATED TECHNOLOGY BERHAD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2021 (CONT'D)

2. **LISTING SCHEME (CONT'D)**

(ii) **Pro Forma II: Initial Public Offering ("IPO") (Cont'd)**

(b) **Offer for Sale**

The major shareholders Mr. Paul Heng Weng Seng and Ms. Liew Sow Ying will undertake an offer for sale of 21,416,600 existing ordinary shares in Coraza ("Offer Shares"), representing approximately 5% of the enlarged share capital of Coraza, at RM0.28 per Offer Share, by way of private placement to selected investors.

(c) **Listing**

Subsequent to the above, the Company's entire enlarged share capital of RM62,234,349 comprising 428,331,001 ordinary shares shall be listed on the ACE Market of Bursa Malaysia Securities Berhad.

(iii) **Pro Forma III: Utilisation of Proceeds from IPO**

Gross proceeds from the Listing of RM32,982,000 will be utilised as follows:

Details of utilisation	**Estimated timeframe for utilisation upon listing**	**RM**
Capital expenditure		
- Acquisition of machineries and equipment	Within 36 months	15,500,000
- Construction of a factory [(a)]	Within 36 months	6,412,000
- Implementation of enterprise resource planning system	Within 12 months	1,200,000
- Extension of existing building	Within 12 months	1,500,000
Repayment of borrowings [(b)]	Within 12 months	4,600,000
Estimated listing expenses [(c)]	Within 1 months	3,770,000
Total estimated proceeds		**32,982,000**

Notes:

(a) The construction of factory is expected to cost approximately RM19,768,000 and to be constructed on Lot 2773 and 2776 located in Nibong Tebal, Penang, measuring 8,374 square metres. The estimated construction cost covers structural works, electrical, fittings and professional fees. RM6,412,000 from the estimated construction cost will be funded via IPO proceeds while the remaining balance will be funded via bank borrowings.

As at 23 November 2021, being the latest practicable date prior to the date of the Prospectus ("LPD"), the Group has not submitted the building plans to the local authorities for approval. However, the Group has secured an Islamic Term Financing Facility of RM13,356,000 to cover the remaining construction cost. To present the impact on the Group's gearing ratio had the Islamic Term Financing Facility been drawn down, it is assumed that the construction of the factory is completed on 30 June 2021.

(b) Comprise of early settlement of term loans which were drawn down to finance the purchase of the Group's existing factory. The early settlement will attract an early settlement fee as stipulated in the offer letters amounting to approximately RM107,000, and it will be paid via internally generated funds.

CORAZA INTEGRATED TECHNOLOGY BERHAD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2021 (CONT'D)

2. **LISTING SCHEME (CONT'D)**

(iii) **Pro Forma III: Utilisation of Proceeds from IPO**

(c) The estimated listing expenses comprise the following:

Details	RM
Professional fees	1,749,000
Underwriting commission, placement fees and brokerage fees	1,500,000
Printing, advertising fees and contingencies	521,000
Total estimated listing expenses *	3,770,000

* The listing expenses are estimated at RM3,770,000 and will be set off against the share capital and profit or loss accordingly. The apportionment is disclosed in 3.3 and 3.4 respectively.

3. **NOTES TO PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

3.1 **PROPERTY, PLANT AND EQUIPMENT**

The movements of the property, plant and equipment are as follows:

	RM
As at 30 June 2021	-
Pursuant to Internal Restructuring Exercise	24,035,246
As per Pro Forma I and II	24,035,246
Pursuant to Utilisation of Proceeds from IPO	24,612,000
Estimated cost to complete the construction of the factory (Note 2(iii)(a))	13,356,000
As per Pro Forma III	62,003,246

3.2 **CASH AND CASH EQUIVALENTS**

The movements of cash and cash equivalents are as follows:

	RM
As at 30 June 2021	1
Pursuant to Internal Restructuring Exercise	4,055,517
As per Pro Forma I	4,055,518
Pursuant to Proceeds from IPO	32,981,480
As per Pro Forma II	37,036,998
Pursuant to Utilisation of Proceeds from IPO	
- Capital expenditure	(24,612,000)
- Repayment of borrowings	(4,600,000)
- Estimated listing expenses	(3,770,000)
- Early settlement fee (Note 2(iii)(b))	(107,000)
As per Pro Forma III	3,947,998

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CORAZA INTEGRATED TECHNOLOGY BERHAD
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2021 (CONT'D)

3. **NOTES TO PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)**

3.3 **SHARE CAPITAL**

The movements of the share capital are as follows:

	No. of Shares	RM
As at 30 June 2021	1	1
Pursuant to Internal Restructuring Exercise	310,540,000	29,252,868
As per Pro Forma I	310,540,001	29,252,869
Pursuant to IPO	117,791,000	32,981,480
As per Pro Forma II	428,331,001	62,234,349
Pursuant to Utilisation of Proceeds from IPO		
- Estimated listing expenses set-off against share capital	-	(2,124,250)
As per Pro Forma III	428,331,001	60,110,099

3.4 **(ACCUMULATED LOSS)/RETAINED PROFITS**

The movements of the (accumulated loss)/retained profits are as follows:

	RM
As at 30 June 2021	(27,967)
Pursuant to Internal Restructuring Exercise	32,194,448
As per Pro Forma I and II	32,166,481
Pursuant to Utilisation of Proceeds from IPO	
- Estimated listing expenses charged to profit or loss	(1,645,750)
- Early settlement fee (Note 2(iii)(b))	(107,000)
As per Pro Forma III	30,413,731

3.5 **BORROWINGS**

The movements of the borrowings are as follows:

	RM
Non-current liabilities	
As at 30 June 2021	-
Pursuant to Internal Restructuring Exercise	10,321,075
As per Pro Forma I and II	10,321,075
Drawdown of Islamic Term Financing for construction of factory (Note 2(iii)(a))	13,356,000
Pursuant to Utilisation of Proceeds from IPO	(3,806,277)
As per Pro Forma III	19,870,798
Current liabilities	
As at 30 June 2021	-
Pursuant to Internal Restructuring Exercise	7,382,144
As per Pro Forma I and II	7,382,144
Pursuant to Utilisation of Proceeds from IPO	(793,723)
As per Pro Forma III	6,588,421

GRANT THORNTON MALAYSIA PLT
FOR IDENTIFICATION PURPOSES ONLY

15. STATUTORY AND OTHER INFORMATION

15.1 SHARE CAPITAL

(a) As at the date of this Prospectus, we only have one class of shares, namely, ordinary shares, all of which rank equally with one another.

(b) Save for the Pink Form Allocations as disclosed in Section 4.3.2,

(i) no Director or employee of our Group has been or is entitled to be given or has exercised any option to subscribe for any share of our Company or our subsidiary; and

(ii) there is no scheme involving the employees of our Group in the shares of our Company or our subsidiary.

(c) Save for the new Shares issued for the Acquisition and to be issued for the Public Issue as disclosed in Sections 6.2 and 4.3.1 respectively, no shares of our Company have been issued or are proposed to be issued as fully or partly paid-up, in cash or otherwise, within the past 2 years immediately preceding the date of this Prospectus.

(d) Other than our Public Issue as disclosed in Section 4.3.1, there is no intention on the part of our Directors to further issue any Shares on the basis of this Prospectus.

(e) As at the date of this Prospectus, we do not have any outstanding convertible debt securities.

15.2 SHARE CAPITAL OF OUR SUBSIDIARY

Details of our share capital are set out in Section 6.1. Details of the share capital of our subsidiary are set out below.

15.2.1 Coraza Systems

Coraza Systems' share capital as at LPD is RM2,500,000 comprising 2,500,000 ordinary shares. The movements in its share capital since incorporation are as follows:

Date of allotment	No. of shares allotted	Consideration/ Type of issue	Cumulative share capital
			RM
18 September 2001	100	RM100/ Subscribers' shares	100
9 November 2001	99,900	RM99,900/ Cash	100,000
15 October 2003	2,400,000	RM2,400,000/ (1)Other than cash	2,500,000

Note:

(1) Being the capitalisation of amount owing to the then holding company i.e. Armour Holdings.

As at LPD, there are no outstanding warrants, options, convertible securities or uncalled capital in Coraza Systems. In addition, there were no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

15.3 CONSTITUTION

The following provisions are extracted from our Constitution. Terms defined in our Constitution shall have the same meanings when used here unless they are otherwise defined here or the context otherwise requires.

15.3.1 Changes in share capital and variation of class rights

The provisions in our Constitution dealing with changes in share capital and variation of class rights, which are no less stringent than those required by law, are as follows:

Article 7 - Class of shares

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 dividends, capital, voting or otherwise.

Article 8 - Alteration of share capital

Subject always to the provision under Article 7 hereof, the Company shall have the power to increase or reduce the capital, to consolidate or subdivide the shares into shares of larger or smaller amounts and to issue all or any part of the original or any additional capital as fully paid or partly paid shares, and with any special or preferential rights or privileges, or subject to any special terms or conditions and either with or without any special designation, and also from time to time to alter, modify, commute, abrogate or deal with any such privileges, terms, conditions or designations in accordance with the regulations for the time being of the Company.

Article 9 - Allotment of shares

Subject to the provisions of the Applicable Laws, the provisions of this Constitution and the provisions of any resolution of the Company and without prejudice to any special rights previously conferred on the holders of any existing shares or class of shares, shares in the Company shall be under the control of the Directors who may issue, allot or otherwise dispose of such shares to such persons, on such terms and conditions, with such preferred, deferred or other special rights and subject to such restrictions and at such times as the Directors may determine, PROVIDED ALWAYS that:

(a) no shares shall be issued which shall have the effect of transferring a controlling interest in the Company without the prior approval of the members in general meeting;

(b) every issue of shares, options or convertible securities to employees and/or Directors of the Company and its subsidiaries under Share Issuance Scheme or Share Grant Scheme shall be approved by the members in general meeting;

(c) no Director shall participate in a share, option or convertible securities for employees and any participation in Share Issuance Scheme or Share Grant Scheme unless the members in a general meeting have approved the specific allotment to be made to such Director; and

(d) the rights attaching to shares of a class other than ordinary shares shall be clearly expressed in the resolution creating the same and in this Constitution.

Article 10 - Rights of preference shareholders

(1) Subject to the Applicable Laws and this Constitution, any preference shares may with the sanction of an Ordinary Resolution be issued on terms that they are, or at the option of the Company are liable to be redeemed on such terms and in such manner as may be provided for by this Constitution.

(2) If the Company at any time issues preference capital, it shall indicate at the same time whether it reserves the right to issue further preference capital ranking equally with or in priority to preference shares already issued.

(3) A holder of preference shares must have a right to vote in each of the following circumstances:

(a) when the dividend or part of the dividend on the share is in arrears for more than six (6) months;

(b) on a proposal to reduce the Company's share capital;

(c) on a proposal for the disposal of the whole of the Company's property, business and undertaking;

(d) on a proposal that affects the rights attached to the preference shares;

(e) on a proposal to wind up the Company; and

(f) during the winding up of the Company.

(4) A holder of preference shares must be entitled to the same rights as a holder of ordinary shares in relation to receiving notices, reports, audited financial statements and attending meetings.

(5) The preference shareholders shall have the right to a return of capital in preference to holders of ordinary shares when the Company is wound up.

Article 11 - Repayment of preference capital

Notwithstanding Article 10, the repayment of preference share capital other than redeemable preference share or any alteration of preference shareholders' rights shall only be made pursuant to a Special Resolution of the preference shareholders concerned PROVIDED ALWAYS that where the necessary majority for such a Special Resolution is not obtained at the meeting, consent in writing obtained from the holders of seventy five per centum (75%) of the preference capital concerned within two (2) months of the meeting shall be as valid and effectual as a Special Resolution carried at the meeting.

Article 12 - Modification of class rights

If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, whether or not the Company is being wound up, be varied or abrogated with the consent in writing of the holders of seventy five per centum (75%) of the total voting rights of that class or with the sanction of a Special Resolution passed at a separate general meeting of the holders of the shares of that class.

The provisions of the Act and this Constitution relating to general meetings shall mutatis mutandis apply so that the necessary quorum:

(a) for a meeting other than an adjourned meeting shall be two (2) persons present or representing by proxy holding at least one-third (1/3) of the number of issued shares of the class (excluding any shares of that class held as treasury shares) and that any holder of shares of the class present in person or by proxy may demand a poll; and

(b) for an adjourned meeting shall be one (1) person present or representing by proxy holding shares of such class.

To every such Special Resolution the provisions of Section 292 of the Act shall apply with such adaptations as are necessary.

Article 13 - Alteration of rights by issuance of new shares

The rights conferred upon the holders of the shares of any class issued with preferred or other rights shall, unless otherwise expressly provided by the terms of issue of the shares of that class be deemed to be varied by the creation or issue of further shares ranking as regards participation in the profits or assets of the Company in some or in all respects pari passu therewith.

Article 14 - Commission on subscription of shares

The Company may exercise the powers of paying commissions conferred by the Act, provided that the rate or the per centum of the commission paid or agreed to be paid shall be disclosed in the manner required by the Act and the commission shall not exceed the rate of ten per cent (10%) of the price at which the shares in respect whereof the commission is paid are issued or an amount equivalent thereto. Such commission may be satisfied by the payment of cash or the allotment of fully paid up shares or partly paid up shares or by a combination of any of the aforesaid methods of payment. The Company may, on any issue of shares, also pay such brokerage as may be lawful.

Article 15 - Interest on share capital during construction of works on building

Where any shares are issued for the purpose of raising money to defray the expenses of construction of any works or buildings or the provision of any plant which cannot be made profitable for a long period, the Company may pay interest or return on the amount of such share capital as is for the time being paid up for the period and subject to the conditions and restrictions mentioned in Section 130 of the Act and may charge the same to capital as part of the cost of construction of the works or buildings or the provision of the plant.

Article 16 - Trusts not to be recognised

Except as required by law, no person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future or partial interest in any share or unit of share or (except only as by this Constitution or by law otherwise provided) any other rights in respect of any share except in an absolute right to the entirety thereof in the registered holder.

Article 17 - Share certificates

The Company may issue share certificates or jumbo certificates in respect of shares or securities under the share seal or Seal of the Company in such form as the Directors may from time to time prescribe. Every certificate shall bear the facsimile signature of at least one Director and a second Director or the Secretary or some other person appointed by the Directors for the purpose, and shall specify the number and class of shares or securities.

Article 56 - Power to increase capital

Without prejudice to the rights attached to any existing shares or class of shares, the Company may from time to time, whether all the shares for the time being issued shall have been fully called up or not, by Ordinary Resolution increase its share capital by the creation and issue of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts and to carry such rights or to be subject to such conditions or restrictions in regard to dividend, return of capital or otherwise as the Company by the resolution authorising such increase may direct.

Article 57- Offer of new shares

Subject to any direction to the contrary that may be given by the Company in general meeting, all new shares or other convertible securities of whatever kind shall, before issue, be offered to such persons as at the date of the offer are entitled to receive notices from the Company of general meetings in proportion, as nearly as the circumstances admit, to the amount of the existing shares or securities to which they are entitled. The offer shall be made by notice specifying the number of shares or securities offered, and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares or securities offered, the Directors may dispose of those shares or securities in such manner as they think most beneficial to the Company. The Directors may likewise also dispose of any new share or security which (by reason of the ratio which the new shares or securities bear to the shares or securities held by persons entitled to an offer of new shares or securities) cannot, in the opinion of the Directors, be conveniently offered under this Article.

Article 58 - Ranking of new shares

Except so far as otherwise provided by the conditions of issue in this Constitution, any share capital raised by the creation of new shares shall be considered as part of the original share capital of the Company and shall be subject to the same provisions with reference to the payment of calls, lien, transfer, transmission, forfeiture and otherwise as the original share capital.

Article 59 - Power to alter capital

The Company may by Ordinary Resolution:

(a) consolidate and divide all or any of its share capital, the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided share is derived;

(b) subdivide its shares or any of the shares, whatever is in the subdivision, the proportion between the amount paid and the amount, if any, unpaid on each subdivided share shall be the same as it was in the case of the share from which the subdivided share is derived. Any resolution whereby any share is subdivided may determine that, as between the holders of shares resulting from such subdivision, one or more of such shares may have such preferred or other special rights over, or may be given any preference or advantage as regards dividends, return of capital, voting or otherwise over the other or others of such shares; or

(c) convert all or any of its paid-up shares into stock and may re-convert that stock into paid-up shares or subject to the Act, reclassify any class of shares into other class of shares.

Article 60 - Power to reduce capital

The Company may by Special Resolution reduce its share capital in any manner permitted or authorised under and in compliance with the Applicable Laws.

Article 61 – Fractions

Subject to any direction by the Company in general meeting, if any consolidation or subdivision and consolidation of shares results in Members being entitled to any issued shares of the Company in fractions, the Directors may deal with such fractions as they may determine including (without limitation), selling the shares to which Members are so entitled for such price as the Directors may determine and paying and distributing to the Members entitled to such shares in due proportions the net proceeds of such sale.

Article 62 - Purchase of Own Shares

(1) The Company may, subject to its obtaining such approval from the relevant authorities (if required) and to its compliance with the Applicable Laws, purchase its own shares. Any shares so purchased by the Company shall be dealt with in accordance with the Applicable Laws.

(2) The provisions of Articles 59 and 60 shall not affect the power of the Company to cancel any shares or reduce its share capital pursuant to any exercise of the Company's powers under paragraph (1) of this Article.

Article 80 - Voting rights of members

Subject to the provisions in Article 69, a Member shall be entitled to be present and to vote at any general meeting in respect of any share or shares upon which all calls due to the Company have been paid.

Article 81 - Voting

Subject to any rights or restriction attached to any shares or classes of shares, at meetings of Members or classes of Members, each Member entitled to vote may vote in person or by proxy, authorised representative or by attorney. On a resolution to be decided by a show of hands every Member present in person who is the holder of ordinary shares or preference shares with right to vote or a proxy or attorney of such Member shall have one (1) vote and on a resolution to be decided by a poll every Member present in person or by proxy or by attorney shall have one (1) vote for each share he holds. A proxy or attorney shall be entitled to vote both on a show of hands and on a poll. On a show of hands, any Member who is a proxy for another Member, and any person who is a proxy for more than one (1) Member shall have only one (1) vote.

Article 83 - Vote of Member of unsound mind

A Member who is of unsound mind or whose person or estate is liable to be dealt with in any way under the law relating to mental disorder may vote, whether on a show of hands or on a poll by his committee or by such other person who properly has the management of his estate and any such committee or other person may vote by proxy or attorney.

Article 84 - Member barred from voting while call unpaid

Subject to the provisions in Article 69, no Member shall be entitled to be present or to vote on any question either personally or otherwise, as a proxy or attorney at any general meeting or upon a poll or be reckoned in the quorum in respect of any shares (a) upon which calls are due and unpaid; and/or (b) where the instrument of proxy, the power of attorney or other authority, if any, naming another person or party (other than the said Member) as proxy, attorney, or person/party authorised to so act has not been deposited with the Company in accordance with Article 88.

Article 152 - Payment of dividends

Subject to the rights of persons, if any, entitled to shares with special rights as to dividend, all dividends shall be declared and paid according to the amounts paid or credited as paid on the shares in respect whereof the dividend is paid, but no amount paid or credited as paid on a share in advance of call shall be treated for the purposes of this Article as paid on the share. All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid, but if any share is issued on terms providing that it shall rank for dividend as from a particular date that share shall rank for dividend accordingly.

Article 153 - Deduction of dividends

The Directors may deduct from any dividend payable to any Member all sums of money, if any, presently payable by him to the Company on account of calls or otherwise in relation to the shares of the Company.

Article 154 - Dividends due may be retained until registration

The Directors may retain the dividends payable upon shares in respect of which any person is under the provision as to the transmission of shares herein before contained entitled to become a Member or which any person is under those provisions entitled to transfer, until such person shall become a Member in respect of such shares or shall transfer the same.

Article 168 – Distribution of assets in specie

If the Company is wound up (whether the liquidation is voluntary, under supervision, or by the court), the liquidator may after the payment or satisfaction of all liabilities of the Company including preferred payments under the Act, with the sanction of a Special Resolution of the Company divide amongst the Members in kind the whole or any part of the assets of the Company (whether they consist of property of the same kind or not) and may for that purpose set such value as he deems fair upon any property to be divided as aforesaid and may determine how the division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of any such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, think fit, but so that no Member shall be compelled to accept any shares or other securities whereon there is any liability.

15.3.2 Borrowing and voting powers of the directors

The provisions in our Constitution dealing with voting and borrowing powers of our Directors including voting powers in relation to proposals, arrangements or contracts in which they are interested in are as follows:

Article 107 - Directors' borrowing powers

(a) The Directors may exercise all the powers of the Company to borrow money from any person, bank, firm or company and to mortgage or charge its undertaking, property and uncalled capital, or any part thereof and to issue debentures and other securities whether outright or as security for any debt, liability or obligation of the Company or its subsidiaries, or any related or associated corporation.

(b) The Directors may exercise all the powers of the Company to guarantee and give guarantees or indemnities for the payment of money, the performance of contracts or obligations or for the benefit or interest of the Company, or its subsidiaries, or any related or associate corporation.

(c) The Directors may guarantee the whole or any part of the loans or debts raised or incurred by or on behalf of the Company or its subsidiaries including any interest payable thereon with power to the Directors to indemnify the guarantors from or against liability under their guarantees by means of a mortgage or hypothecation of or charge upon any property and asset of the Company or its subsidiaries or otherwise.

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 or other securities, whether outright or as security for any debt, liability or obligation of an unrelated third party.

Article 112 - Limitation of Powers

Subject to the Act and the Listing Requirements, the Directors shall not without the prior approval of the Company in general meeting:

(a) carry into effect any proposal or execute any transaction for the acquisition of any undertaking or property of a substantial value, or the disposal of a substantial portion of the main undertaking or property of the Company, as defined in the Act; or

(b) exercise any power of the Company to issue securities unless otherwise permitted under the Act; or

(c) enter into any arrangement or transaction with a Director or a substantial shareholder of the Company or of the holding company of the Company, or with a person connected with such a Director or a substantial shareholder to acquire from or dispose to such a Director or substantial shareholder or persons connected with such Director or substantial shareholder, any shares or non-cash assets of a requisite value as defined in the Act.

Article 116 - Directors may hold other office

Subject always to Sections 221 and 228 of the Act, a Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine and no Director or intending Director shall be disqualified by his office from contracting with the Company either with regard to his tenure of any such other office or place of profit or 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 is in any way interested, be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established.

Article 125 - Disclosure of Interest & Restriction on Discussion and Voting

Every Director shall declare his interest in the Company and his interest in any contract or proposed contract with the Company as may be required by law. Subject to Section 222 of the Act, a Director shall not participate in any discussion or vote in respect of any contract or proposed contract or arrangement in which he has directly or indirectly an interest and if he shall do so his vote shall not be counted. A Director shall, notwithstanding his interest, be counted in the quorum for any meeting where a decision is to be taken upon any contract or proposed contract or arrangement in which he is in any way interested.

Article 126 - Power to vote

Subject to Article 125, a Director may vote in respect of:

(a) any arrangement for giving the Director himself or any other Director any security or indemnity in respect of money lent by him to or obligations undertaken by him for the benefit of the Company or any of its subsidiaries; or

(b) any arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company for which the Director himself or any other Director has assumed responsibility in whole or in part under a guarantee or indemnity or by the deposit of security.

Article 127 - Directors may become directors of other corporation

A Director of the Company may be or become a Director or other officer of or otherwise be interested in any corporation promoted by the Company or in which the Company may be interested as shareholder or otherwise or any corporation, which is directly or indirectly interested in the Company as shareholder or otherwise and no such Director shall be accountable to the Company for any remuneration or other benefit received by him as a Director or officer of, or from his interest in, such corporation unless the Company otherwise directs at the time of his appointment. The Director may exercise the voting power conferred by the shares or other interest in any such other corporation held or owned by the Company, or exercisable by him as Director of such other corporation in such manner and in all aspects as he think fit (including the exercise thereof in favour of any resolution appointing him as director or any of the Directors or other officers of such corporation) and any Director may vote in favour of the exercise of such voting rights in manner aforesaid, notwithstanding that he may be, or is about to be appointed, a Director or other officer of such corporation and as such is or may become interested in the exercise of such voting rights in manner aforesaid provided always that he has complied with Section 221 and all other relevant provisions of the Act, the Listing Requirements and this Constitution.

15.3.3 Remuneration of directors

The provisions in our Constitution dealing with remuneration of Directors are as follows:

Article 103 - Directors' remuneration

The fees and benefits payable to the Directors shall be approved annually by an Ordinary Resolution of the Company in general meeting and shall (unless such resolution otherwise provides) be divisible among the Directors as they may agree PROVIDED ALWAYS that:

(a) salaries payable to executive Director(s) may not include a commission on or percentage of turnover;

(b) fees payable to non-executive Directors shall be a fixed sum and not by a commission on or percentage of profits or turnover;

(c) any fee paid to an alternate Director shall be such as shall be agreed between himself and the Director nominating him and shall be paid out of the remuneration of the latter; and

(d) fees and benefits payable to Directors shall not be increased except pursuant to an Ordinary Resolution passed at a general meeting, where notice of the proposed increase has been given in the notice convening the meeting.

Article 104 - Reimbursement of expenses

(1) The Directors shall be paid all their travelling and other expenses properly and necessarily expended by them in and about the business of the Company including their travelling and other expenses incurred in attending board meetings of the Company.

(2) If by arrangement with the Directors, any Director shall perform or render any special duties or services outside his ordinary duties as a Director in particular without limiting to the generality of the foregoing if any Director being willing shall be called upon to perform extra services or to make any special efforts in going or residing away from his usual place of business or residence for any of the purposes of the Company or in giving special attention to the business of the Company as a member of a committee of Directors, the Company may remunerate the Director so doing a special remuneration in addition to his Director's fees and such special remuneration may be by way fixed sum or otherwise as may be arranged.

Article 130 - Remuneration of Managing Director

The remuneration of a Managing Director 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 such remuneration shall not include 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.

15.3.4 Transfer of Shares

The provisions in our Constitution dealing with transfer of Shares are as follows:

Article 29 - Transfer of shares

(i) The transfer of any listed security or class of any listed security of the Company, shall be by way of book entry by the Bursa Depository in accordance with the Rules of the Bursa Depository and, notwithstanding sections 105, 106 and 110 of the Act, but subject to section 148(2) of the Act and any exemption that may be made from compliance with section 148(1) of the Act, the Company shall be precluded from registering and effecting any transfer of the listed securities.

(ii) Subject to any written law, the instrument of transfer of any security that is not deposited with Bursa Depository shall be in writing and in any usual or common form or in any other form which the Directors may approve. The instrument of transfer shall be executed by or on behalf of the transferor 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 thereof.

Article 30 - Deposited Security

In the case of a Deposited Security, the Bursa Depository may refuse to register any transfer of the Deposited Security that does not comply with the Central Depositories Act and the Rules of the Bursa Depository.

Article 31 - Shares not deposited with the Bursa Depository

In the case of shares not deposited with the Bursa Depository:

(a) The Directors may decline to register any transfer of shares not being fully paid shares to a person of whom they do not approve and may also decline to register any transfer of shares on which the Company has a lien.

(b) The instrument of transfer must be left for registration at the Office together with such fee not exceeding RM1.00 as the Directors from time to time may require accompanied by the certificate of the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer, and thereupon the Company shall subject to the powers vested in the Directors by these Articles register the transferee as a shareholder and retain the instrument of transfer.

(c) If the Directors refuse to register a transfer they shall within thirty days after the date on which the transfer was lodged with the Company send to the transferee and the transferor notice of the refusal in accordance with Section 106 of the Act.

(d) All instruments of transfer which shall be registered shall be retained by the Company but any instrument of transfer which the Directors may decline or refuse to register shall on demand be returned to the person depositing the same.

(e) The Company shall be entitled to charge a fee, being a sum of money to be paid in advance, as the Directors may from time to time determine and which the Company may be permitted to charge by law, for the registration of every transfer, plus the amount of the proper duty or taxes with which each certificate to be issued in consequence of the registration of such transfer is chargeable under any law for the time being in force.

Article 32 - No liability for fraudulent transfer

Neither the Company nor its Directors nor any of its officers shall incur any liability for registering or acting upon a transfer of shares that are not deposited securities or for acting upon a transfer of shares registered by the Bursa Depository apparently made by sufficient parties, although the same may, by reason of any fraud or other cause not known to the Company or its Directors or other officers be legally inoperative or insufficient to pass the property in the shares proposed or professed to be transferred, and although the transfer may, as between the transferor and transferee be liable to be set aside, and notwithstanding that the Company may have notice that such instrument of transfer was signed or executed and delivered by the transferor in blank as to the name of the transferee or the particulars of the shares transferred, or otherwise in defective manner. And in every such case, the transferee, his executors, administrators and assignees alone shall be entitled to be recognised as the holder of such shares and the previous holder shall so far as the Company is concerned, be deemed to have transferred his whole title hereto.

Article 33 - No transfer to infant, bankrupt or person of unsound mind

No shares shall in any circumstances be transferred to any infant, bankrupt or person of unsound mind.

Article 34 - Renunciation

Subject to the provisions of this Constitution, the Directors may recognise a renunciation of any shares by the allottee thereof in favour of some other persons.

Article 35 - Suspension of registration

The registration of transfer may be suspended at such times and for such periods as the Directors may from time to time determine not exceeding in the whole thirty (30) days in any year. At least ten (10) Market Days' notice of intention to close the Register shall be published in a daily newspaper circulating in Malaysia and shall also be given to Bursa Securities. The said notice shall state the reason for which the Register is being closed. At least three (3) Market Days before the notice shall be given to Bursa Depository to prepare the appropriate Record of Depositors.

15.4 GENERAL INFORMATION

(a) Save for the dividends paid to our shareholders in FYE 2020 and Directors' remuneration as disclosed in Sections 12.16 and 5.2.4 respectively, no other amount or benefit has been paid or given within the past 2 years immediately preceding the date of this Prospectus, nor is it intended to be paid or given, to any of our Promoter, Director or substantial shareholder.

(b) Save as disclosed in Section 10.1, none of our Directors or substantial shareholders have any interest, direct or indirect, in any contract or arrangement subsisting at the date of this Prospectus and which is significant in relation to the business of our Group.

(c) The manner in which copies of this Prospectus together with the official application forms and envelopes may be obtained and the details of the summarised procedures for application of our Shares are set out in Section 16.

(d) There is no limitation on the right to own securities including limitation on the right of non-residents or foreign shareholders to hold or exercise their voting rights on our Shares.

15.5 CONSENTS

(a) The written consents of the Adviser, Sponsor, Underwriter, Placement Agent, Solicitors, Share Registrar, Company Secretary and Issuing House to the inclusion in this Prospectus of their names in the form and context in which such names appear have been given before the issue of this Prospectus and have not subsequently been withdrawn;

(b) The written consents of the Auditors and Reporting Accountants to the inclusion in this Prospectus of their names, Accountants' Report and report relating to the pro forma consolidated financial information in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not subsequently been withdrawn; and

(c) The written consent of the IMR to the inclusion in this Prospectus of its name and the IMR Report, in the form and context in which they are contained in this Prospectus have been given before the issue of this Prospectus and have not been subsequently withdrawn.

15.6 DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the Registered Office of our Company during normal business hours for a period of 6 months from the date of this Prospectus:

(a) Constitution;

(b) Audited financial statements of Coraza from the date of incorporation up to 30 June 2021 and the audited financial statements of Coraza Systems for FYE 2018 to 2020 and FPE 2021;

(c) Accountants' Report as set out in Section 13;

(d) Reporting Accountants' Report relating to our pro forma consolidated financial information as set out in Section 14;

(e) IMR Report as set out in Section 8;

(f) Material contracts as set out in Section 6.5; and

(g) Letters of consent as set out in Section 15.5.

15.7 RESPONSIBILITY STATEMENTS

Our Directors, Promoters and Selling Shareholders have seen and approved this Prospectus. They collectively and individually accept full responsibility for the accuracy of the information. Having made all reasonable enquiries, and to the best of their knowledge and belief, they confirm there is no false or misleading statement or other facts which if omitted, would make any statement in this Prospectus false or misleading.

M&A Securities 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 our IPO.

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16. SUMMARISED PROCEDURES FOR APPLICATION AND ACCEPTANCE

THIS SUMMARY OF PROCEDURES FOR APPLICATION AND ACCEPTANCE DOES NOT CONTAIN THE DETAILED PROCEDURES AND FULL TERMS AND CONDITIONS AND YOU CANNOT RELY ON THIS SUMMARY FOR PURPOSES OF ANY APPLICATION FOR OUR IPO SHARES. YOU MUST REFER TO THE DETAILED PROCEDURES AND TERMS AND CONDITIONS AS SET OUT IN THE "DETAILED PROCEDURES FOR APPLICATION AND ACCEPTANCE" ACCOMPANYING THE ELECTRONIC 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 PERIOD

OPENING OF THE APPLICATION PERIOD: 10.00 A.M., 22 DECEMBER 2021

CLOSING OF THE APPLICATION PERIOD: 5.00 P.M., 6 JANUARY 2022

In the event of any changes to the date or time for closing, we will advertise the notice of changes in a widely circulated daily English and Bahasa Malaysia newspaper in Malaysia.

Late Applications will not be accepted.

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:	
(a) Individuals	White Application Form or Electronic Share Application or Internet Share Application
(b) Non-Individuals	White Application Form only

16.2.2 Placement

Types of Application	Application Method
Applications by selected investors	The Placement Agent will contact the selected investors directly. They should follow the Placement Agent's instructions.

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 Section 12 of the Detailed Procedures for Application and Acceptance accompanying the electronic copy of our Prospectus on the website of Bursa Securities. The CDS account must be in your own name. **Invalid, nominee or third party CDS accounts** will not be accepted for the Applications.

Only **ONE** Application Form for each category from each applicant will be considered and **APPLICATIONS MUST BE FOR AT LEAST 100 ISSUE SHARES OR MULTIPLES OF 100 ISSUE SHARES.**

MULTIPLE APPLICATIONS WILL NOT BE ACCEPTED UNLESS EXPRESSLY ALLOWED IN THESE TERMS AND CONDITIONS. AN APPLICANT WHO SUBMITS MULTIPLE APPLICATIONS IN HIS OWN NAME OR BY USING THE NAME OF OTHERS, WITH OR WITHOUT THEIR CONSENT, COMMITS AN OFFENCE UNDER SECTION 179 OF THE CMSA AND IF CONVICTED, MAY BE PUNISHED WITH A MINIMUM FINE OF RM1,000,000 AND A JAIL TERM OF UP TO 10 YEARS UNDER SECTION 182 OF THE CMSA.

AN APPLICANT IS NOT ALLOWED TO SUBMIT MULTIPLE APPLICATIONS IN THE SAME CATEGORY OF APPLICATION.

16.3.2 Application by Malaysian Public

You can only apply for our IPO Shares if you fulfill all of the following:

(a) You must be one of the following:

(i) a Malaysian citizen who is at least 18 years old as at the date of the application for our IPO Shares; or

(ii) a corporation / institution incorporated in Malaysia with a majority of Malaysian citizens on your board of directors / trustees and if you have a share capital, more than half of the issued share capital, excluding preference share capital, is held by Malaysian citizens; or

(iii) a superannuation, co-operative, foundation, provident, pension fund established or operating in Malaysia.

(b) You must not be a director or employee of the Issuing House or an immediate family member of a director or employee of the Issuing House; and

(c) You must submit Applications by using only one of the following methods:

(i) White Application Form; or

(ii) Electronic Share Application; or

(iii) 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 APPLICATION BY WAY OF APPLICATION FORMS

The Application Form must be completed in accordance with the notes and instructions contained in the respective category of the Application Form. Applications made on the incorrect type of Application Form or which do not conform **STRICTLY** to the terms of our Prospectus or the respective category of Application Form or notes and instructions or which are illegible will not be accepted.

The FULL amount payable is RM0.28 for each IPO Share.

Payment must be made out in favour of **"TIIH SHARE ISSUE ACCOUNT NO. 712"** and crossed **"A/C PAYEE ONLY"** and endorsed on the reverse side with your name and address.

Each completed Application Form, accompanied by the appropriate remittance and legible photocopy of the relevant documents may be submitted using one of the following methods:

(a) despatch by **ORDINARY POST** in the official envelopes provided, to the following address:

Tricor Investor & Issuing House Services Sdn Bhd (197101000970 (11324-H))
Unit 32-01, Level 32, Tower A
Vertical Business Suite
Avenue 3, Bangsar South
No. 8, Jalan Kerinchi
59200 Kuala Lumpur

(b) **DELIVER BY HAND AND DEPOSIT** in the drop-in boxes provided at Tricor 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 6 January 2022 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 APPLICATION BY WAY OF ELECTRONIC SHARE APPLICATIONS

Only Malaysian individuals may apply for our IPO Shares offered to the Malaysian Public by way of Electronic Share Application.

Electronic Share Applications may be made through the ATM of the following Participating Financial Institutions and their branches, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, AmBank (M) Berhad, CIMB Bank Berhad, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Participating Financial Institutions (unless waived) for each Electronic Share Application.

16.6 APPLICATION BY WAY OF INTERNET SHARE APPLICATIONS

Only Malaysian individuals may use the Internet Share Application to apply for our IPO Shares offered to the Malaysian Public.

Internet Share Applications may be made through an internet financial services website of the Internet Participating Financial Institutions, namely, Affin Bank Berhad, Alliance Bank Malaysia Berhad, CIMB Bank Berhad, CGS-CIMB Securities Sdn Bhd, Malayan Banking Berhad, Public Bank Berhad and RHB Bank Berhad. A processing fee will be charged by the respective Internet Participating Financial Institutions (unless waived) for each Internet Share Application.

The exact procedures, terms and conditions for Internet Share Application are set out on the internet financial services website of the respective Internet Participating Financial Institutions.

16.7 AUTHORITY OF OUR BOARD AND THE ISSUING HOUSE

The Issuing House, on the authority of our Board reserves the right to:

(a) reject Applications which:

  (i) do not conform to the instructions of our Prospectus, Application Forms, Electronic Share Application and Internet Share Application (where applicable); or

  (ii) are illegible, incomplete or inaccurate; or

  (iii) are accompanied by an improperly drawn up or improper form of remittance; or

(b) reject or accept any Application, in whole or in part, on a non-discriminatory basis without the need to give any reason; and

(c) bank in all Application monies (including those from unsuccessful / partially successful applicants) which would subsequently be refunded, where applicable (without interest), in accordance with Section 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

(a) The Application monies or the balance of it, as the case may be, will be returned to you through the self-addressed and stamped Official "A" envelope you provided by ordinary post (for fully unsuccessful applications) or by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or if you have not provided such bank account information to Bursa Depository, the balance of Application monies will be refunded via banker's draft sent by ordinary / registered post to your last address maintained with Bursa Depository (for partially successful applications) within 10 Market Days from the date of the final ballot at your own risk.

(b) If your Application is rejected because you did not provide a CDS Account number, your Application monies will be refunded via banker's draft sent by ordinary / registered post to your address as stated in the NRIC or any official valid temporary identity document issued by the relevant authorities from time to time or the authority card (if you are a member of the armed forces or police) at your own risk.

(c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected or unsuccessful or only partly successful will be refunded (without interest) by the Issuing House as per items (a) and (b) above (as the case may be).

(d) The Issuing House reserves the right to bank into its bank account all Application monies from unsuccessful applicants. These monies will be refunded (without interest) within 10 Market Days from the date of the final ballot by crediting into your bank account (the same bank account you have provided to Bursa Depository for the purposes of cash dividend / distribution) or by issuance of banker's draft sent by ordinary/registered post to your last address maintained with Bursa Depository if you have not provided such bank account information to Bursa Depository or as per item (b) above (as the case may be).

16.8.2 For applications by way of Electronic Share Application and Internet Share Application

(a) The Issuing House shall inform the Participating Financial Institutions or Internet Participating Financial Institutions of the unsuccessful or partially successful Applications within 2 Market Days after the balloting date. The full amount of the Application monies or the balance of it will be credited without interest into your account with the Participating Financial Institution or Internet Participating Financial Institution (or arranged with the Authorised Financial Institutions) within 2 Market Days after the receipt of confirmation from the Issuing House.

(b) You may check your account on the 5th Market Day from the balloting date.

(c) A number of Applications will be reserved to replace any successfully balloted Applications that are subsequently rejected. The Application monies relating to these Applications which are subsequently rejected will be refunded (without interest) by the Issuing House by crediting into your account with the Participating Financial Institution or Internet Participating Financial Institutions (or arranged with the Authorised Financial Institutions) not later than 10 Market Days from the date of the final ballot. For Applications that are held in reserve and which are subsequently unsuccessful or partially successful, the relevant Participating Financial Institution will be informed of the unsuccessful or partially successful Applications within 2 Market Days after the final balloting date. The Participating Financial Institution will credit the Application monies or any part thereof (without interest) within 2 Market Days after the receipt of confirmation from the Issuing House.

16.9 SUCCESSFUL APPLICANTS

If you are successful in your application:

(a) Our IPO Shares allotted to you will be credited into your CDS Account.

(b) A notice of allotment will be despatched to you at your last address maintained with the Bursa Depository, at your own risk, before our Listing. This is your only acknowledgement of acceptance of your Application.

(c) In accordance with Section 14(1) of the Central Depositories Act, Bursa Securities has prescribed our Shares as Prescribed Securities. As such, our IPO Shares issued / offered through our Prospectus will be deposited directly with Bursa Depository and any dealings in these Shares will be carried out in accordance with the Central Depositories Act and Depository Rules.

(d) In accordance with Section 29 of the Central Depositories Act, 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. 03-2783 9299
Electronic Share Application	Participating Financial Institution
Internet Share Application	Internet Participating Financial Institution and Authorised Financial Institution

The results of the allocation of IPO Shares derived from successful balloting will be made available to the public at the Issuing House website at https://tiih.online, **one Market Day** after the balloting date.

You may also check the status of your Application at the above website, **5 Market Days** after the balloting date or by calling your respective ADA during office hours at the telephone number as stated in the list of ADAs set out in Section 12 of the Detailed Procedures for Application and Acceptance accompanying the Electronic Prospectus on the website of Bursa Securities.

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