6.21.3 Acquisition of properties

Save as disclosed in Section 6.20(a) above, we have not entered into any sale and purchase agreements to acquire any properties during FYE 2018 to FYE 2021 and up to the LPD.

6.21.4 Regulatory requirements and environmental issues

There are no regulatory requirements and/or environmental issues which may materially affect our Group's operations arising from the utilisation of our assets.

6.22 HIGH DEPENDENCY ON CONTRACTS, AGREEMENTS, DOCUMENTS OR OTHER ARRANGEMENTS

As at LPD, we do not have any contract, including commercial or financial contracts, on which are materially dependent for our business or profitability.

Our Group is dependent on the successful implementation and execution of our operational processes as described in Section 6.9.

6.23 BUSINESS INTERRUPTIONS

Save as disclosed below, we have not experienced any interruptions that had a significant effect on our operations during the past 12 months preceding the LPD.

6.23.1 Impact of COVID-19

COVID-19 was officially declared a health pandemic by the Director General of the World Health Organisation on 11 March 2020. On 16 March 2020, the Malaysian Government announced the MCO under the Prevention and Control of Infectious Diseases Act 1988 and the Police Act 1967 effective from 18 March 2020 to 4 May 2020 ("**MCO 1.0**"). A conditional MCO ("**CMCO**") was then imposed from 4 May 2020 until 9 June 2020 followed by recovery MCO ("**RMCO**") from 10 June 2020 until 31 December 2020.

During the initial MCO period, all Government and private premises (saved for those involved in essential services or industries which had special permission, such as healthcare, food and beverage, and manufacturing of essential goods) are required to temporarily cease all operations. We resumed our trading and manufacturing operations after receiving approval from MITI on 22 April 2020 and 24 April 2020, respectively, as we were classified under the supply chain of essential goods and services. We continued our manufacturing operations with 100% production workforce capacity, while non-production staff worked remotely from home. We continued our trading operations with 50% workforce at our premises, whilst the remaining 50% workforce worked remotely from home on a rotation basis.

On 11 January 2021, the Malaysian Government announced a second MCO ("**MCO 2.0**") which was effective on 13 January 2021 and the third MCO ("**MCO 3.0**") was implemented effective 12 May 2021 for the whole country following the increase in the number of COVID-19 cases. As number of infections continues to increase, the Malaysian Government announced a full nationwide lockdown ("**FMCO**") from 1 June 2021 onwards, where only selected industries are allowed to continue operating. On 15 June 2021, the Government announced the National Recovery Plan, which is a 4 phase strategy based on three indicators, (a) number of symptomatic new hospital admissions; (b) capability of public healthcare system based on the bed utilisation rate in intensive care unit (ICU) wards; and (c) percentage of the population protected against COVID-19, based on the number of people that have received two doses of vaccines. In February 2022, Malaysia saw a surge in COVID-19 infections due to the Omicron variant of COVID-19. Nonetheless, due to the high vaccination rates among our workforce at our office, we have not experienced any material disruptions to our business operations. Although we have reported infections amongst our employees, we continued our business activities normally and there was no major outbreak recorded within our Manufacturing Facilities and sales offices in Malaysia since our last major outbreak in September 2021. As at the LPD, our Group did not experience any material impact on our financial performance as a result of the surge in COVID-19 infections due to the Omicron variant of COVID-19.

As for our trading operations in Thailand and Indonesia, the respective Governments of both countries has also declared nationwide curfews and travel bans, as well as control measures for businesses to observe. Nevertheless, the operations of Yew Lee Thailand and Yew Lee Indonesia were not affected as our sales and marketing offices were allowed to operate during these periods while complying with the control measures issued by the respective Governments and local authorities.

6.23.2 Measures to commence and continue our business operations

As part of the conditions set forth by MITI permitting companies providing essential services to continue operating during the various MCO periods, our Group has established a protocol at our workplace and premises to monitor and prevent the spread of COVID-19 in accordance with the SOPs that has been determined by the MOH. Some of the SOPs that we have implemented are as follows:

(a) submitting a list of employees who are involved in operations and ensuring that their movement is limited to travelling from home to work only. In addition, we also record the daily attendance of our employees and ensuring that they have scanned the MySejahtera application before entering our premises;

(b) providing thermometers at the entrance of our manufacturing facilities to measure employees' body temperature. Our assigned personnel will also look for any symptom(s) of cough, sore throat and breathing difficulty. Persons with a body temperature of 37.5 degrees Celsius and above or shows any abovementioned symptoms will be referred to the nearest panel clinics. The affected person will not be allowed to enter the workplace and premises;

(c) all visitors to our manufacturing facilities are required to fill in a declaration form and submit them to our human resources department, obtaining the prior approval from our management team as well as their COVID-19 test results prior to their visits;

(d) adopting social distancing at workplace with social distancing guide being prepared such as putting the 1-metre social distancing signs on the floor, tables and chairs particularly at the office, manufacturing floor, meeting rooms and other common areas;

(e) our employees are required to wear a face mask in our manufacturing facilities and office areas. Our Group has also adopted a flexible work arrangement that allows certain employees to work from home to the extent possible;

(f) we also implemented restriction of movement so as to reduce physical contact and interaction between our workers and employees;

(g) placing hand sanitisers at various areas at our manufacturing facility including the entrances and common areas as well as ensuring that face masks are worn by employees and that social distancing is practiced at all times;

(h) daily cleaning, sanitising and disinfecting common areas of our office and manufacturing facility; and

(i) as part of our corporate social responsibility, we also occasionally provide free face masks and personal protective equipment to our employees from time to time.

In the event that our employee has tested positive for COVID-19, our Group will cooperate with the MOH and abide by their instructions for the next course of action. Our SOPs in case an employee tests positive for COVID-19 will include measures such as the following:

(a) compulsory COVID-19 testing for employees in the same department and employees who have come into contact with the affected employee;

(b) sanitising and disinfecting of the affected work area and other premises according to the MOH's guidelines; and

(c) activating a work-from-home policy where possible for other employees in the same department.

For FYE 2020 and FYE 2021, our Group incurred additional expenses of RM0.05 million and RM0.11 million, respectively for the implementation of strict health and safety measures including the purchase of sanitisers, disinfectants, thermometers and personal protective equipment, refreshments and meals. As at the LPD, our Group has not pursued any retrenchment or salary cutting or deferment exercises. In addition, 99.3% or 140 of our total employees have been fully vaccinated.

Our operations were not significantly impacted as the situation were detected and isolated promptly. The employees attached with our Klang Sales Office who were tested positive for COVID-19 were required to be home-quarantined and only allowed to return to workplace after they obtained a negative-test result and received clearance of discharge notification from the MySejahtera application. Following this incident, we have also carried out office wide cleaning and disinfection procedures at our Klang Sales Office. In addition, we conducted mass testing exercise for all 10 employees of YLPH based at our Klang Sales Office to safeguard the health and safety conditions of our employees.

6.23.3 COVID-19 cases within our Group

The following are incidences of COVID-19 cases within our Group:

(a) On 3 August 2021 and 14 August 2021, 2 of our employees attached with our Klang Sales Office was tested positive with COVID-19. As a precautionary measure, we also conducted contact tracing and performed rapid antigen test on our other 8 employees working at our Klang Sales Office between 14 August 2021 and 21 August 2021. As a result, 1 additional employee was tested positive with COVID-19 on 21 August 2021. However, we did not shutdown the operations of our Klang Sales Office as the infected employees are mainly lorry drivers and had undergone quarantined/isolation earlier.

(b) On 7 September 2021, 1 of our production workers (a foreigner) at our Manufacturing Facilities was tested positive with COVID-19. As a precautionary measure, we conducted contact tracing and performed test on all remaining 112 employees working at our Manufacturing Facilities between 8 September 2021 and 10 September 2021. As a result, 35 additional production workers (comprising 28 foreigners and 7 Malaysians) and 1 administrative employee (who is a Malaysian) were tested positive with COVID-19. We then informed the MOH on 10 September 2021, which then directed the 29 foreign employees who tested positive with COVID-19 to be quarantined at our hostel at our Manufacturing Facilities, whilst the remaining 8 local employees were instructed to undergo home-quarantine at their respective residences. The MOH visited our Manufacturing Facilities on 14 September 2021 and issued a temporary shutdown notice on the operations at our Manufacturing Facilities effective from 15 September 2021 to 19 September 2021.

    Following this incident, we have performed disinfection and sanitisation at our Manufacturing Facilities on 10 September 2021 and 17 September 2021. The temporary closure of our Manufacturing Facilities resulted in the temporary delay to our manufacturing operations and business activities by 1 week in fulfilling our orders to customers as we were unable to carry out manufacturing activities during this period. The delayed orders were gradually completed when we resumed our operations and manufacturing activities on 20 September 2021. We have remained in constant communication with our customers to update them on the latest developments.

Upon a follow up checks by the MOH, we were cleared to resume our manufacturing operations at our Manufacturing Facilities on 20 September 2021. Moving forward, we will monitor and keep track of the situation closely and at the same time continue practicing our SOPs strictly.

(c) From September 2021 up to the LPD, there are 33 more reported COVID-19 cases amongst our employees at our Manufacturing Facilities and sales offices in Malaysia. However, we did not shutdown the operations at our Manufacturing Facilities and sales offices in Malaysia as the infected employees had undergone quarantined/isolation earlier.

6.23.4 Impact on the operations and financials of our Group

(a) Impact of COVID-19 on our manufacturing activities and product sales

As we were categorised as the supply chain of essential goods and services and were allowed to continue operating during the various MCO periods, albeit at reducing workforce capacity, we were able to continue our manufacturing activities and did not experience a significant negative impact on our manufacturing activities due to COVID-19.

During the various MCO periods implemented, we continued receiving purchase orders from our major customer who are the major rubber gloves manufacturers who were able to continue operating and were deemed as part of essential services. As such, with the increased demand for rubber gloves and other protective equipment used towards the fight of the COVID-19 pandemic, we recorded corresponding growth in our overall revenue levels during FYE 2020 and FYE 2021.

We were able to work with our customers to fulfil their orders to minimise any possible disruption to delivery. This also allowed us to better plan our raw materials inventory. However, due to tightening of border and travel restrictions imposed by the authorities, we did face minor delays in delivering finished products to our customers located overseas.

From 18 March 2020 up to the LPD, we did not receive any cancellation, default in payments or suspension/delays of any contracts or purchase orders due to the COVID-19 pandemic, save for several cases involving a push-out request in the date of delivery by our customers (i.e. 1 to 2 weeks delay). However, such push-out in delivery of products did not result in any financial impact on our Group, as we have since collected all outstanding payments from our customers. In addition, from 18 March 2020 up to the LPD, none of our customers have made claims against our Group for delays or failure to complete purchase orders due to COVID-19 pandemic.

YLPH has received RM0.09 million and RM0.03 million under the Wage Subsidy Program during FYE 2020 and FYE 2021, respectively. The Wage Subsidy Program is a financial assistance program introduced by the Government of Malaysia which aims to support employers whose operations have been affected by COVID-19 with continuing operations and retaining employees. Save for the above, we have not received any other form of subsidy or financial assistance from the Government of Malaysia.

(b) Impact of COVID-19 on our supply chain

The majority of the raw material supplies (i.e. monofilament materials) for our Group's manufacturing activities are mainly sourced from overseas markets. During the MCO 1.0, we have experienced slight delay in delivery for our supplies where we sourced from overseas, due to factory shutdown during their lockdown period and imposition of lockdown measures in Malaysia which led to labour shortages. We had initially experienced minor disruptions in our supply chain due to the lockdown measures. The delivery of raw materials to our premises was affected briefly due to travel restrictions as well as MITI's deferred approval for businesses they deemed as non-essential. However, there is no any material impact on our supply chain and inventory as we have sufficient level of raw materials upon resuming our manufacturing operations.

Delivery of finished goods to our local customers was minimally affected as they are carried out by our own fleet of delivery trucks, albeit subjected to strict SOPs implemented by the Government. We experienced slight delays in delivery of finished goods to our international customers due to difficulty in obtaining cargo space for sea freight. Despite the delays, our Group did not experience a material adverse effect in delivering finished products to our customers as most of them are local.

During the COVID-19 pandemic, our terms with our customers are mostly FOB and CIF basis, which means that our Company will incur the logistics costs. We have not experienced any penalties from our customers on the delay and are in constant communication with them. We have also continued to receive new purchase orders from customers during this period. As a result, we believe that the delays in delivery will not have any significant adverse impact on our business and financial performance for FYE 2021.

As at the LPD, we have:

(a) cash and bank balances available of RM22.23 million; and

(b) RM11.12 million in total banking facilities (excluding lease liabilities), of which RM9.32 million have been utilised as at LPD and unutilised facility of RM1.80 million available for drawdown, if required.

Premised on the above, our Group has sufficient resources to fulfil our financial obligations to meet our monthly operational expenditure and our financial obligations in the next 12 months. We did not receive any claw back or reduction in the banking facilities limit granted to us by our lenders. Our Group does not anticipate any financial difficulties in meeting our debt obligations in the next 12 months. Our Group also has sufficient working capital to sustain our existing business operations.

6.24 RELEVANT LAWS, REGULATIONS, RULES OR REQUIREMENTS

The relevant laws, regulations, rules or requirements governing the conduct of our Group's business and environmental issues which may materially affect our Group's business or operations are summarised below. The following does not purport to be an exhaustive description of all relevant laws and regulations of which our business is subject to.

Malaysia

(a) Local Government Act 1976

The Local Government Act 1976 ("**LGA**") is enacted to revise and consolidate the laws relating to local government in Peninsular Malaysia. Every licence or permit granted by the local authority shall be subject to such conditions and restrictions as the local authority may think fit and shall be revocable by the local authority at any time without assigning any reason therefor.

Pursuant to the LGA, a person fails to exhibit or produce his licence on the licensed premises shall be liable to a fine not exceeding RM500 or to imprisonment for a term not exceeding six (6) months or to both. As at the LPD, our Group holds and maintains valid business, industrial and signboard licences issued by the respective local authorities.

(b) Industrial Co-ordination Act 1975

The Industrial Co-ordination Act 1975 ("**ICA**") requires manufacturing companies with shareholders' funds of RM2.50 million and above or engaging 75 or more full-time paid employees to apply for a manufacturing licence from the MITI. Failure to observe and adhere to the licensing requirements under the ICA will constitute an offence which is punishable on conviction by a fine not exceeding RM2,000 or to a term of imprisonment not exceeding six (6) months and to a further fine not exceeding RM1,000 per day during which the non-compliance continues.

The licensing officer may also in his discretion revoke a licence if the manufacturer to whom a licence is issued:

(a) has not complied with any condition imposed in the licence;

(b) is no longer engaged in the manufacturing activity in respect of which the licence is issued; or

(c) has made a false statement in his application for the licence.

The licensing officer may also withhold or suspend the revocation of the licence if he is satisfied that the act or omission on the part of the manufacturer under the above situations was due to some cause beyond his control and there is a reasonable prospect of such act or omission being remedied within such period as the licensing officer may direct.

For the period from 2001 to 2004, YLPM undertook the business of distribution of industrial brushes to the rubber gloves manufacturing players. Thereafter, YLPM undertook all manufacturing activities of our Group since 2004. From YLPM's commencement of manufacturing operations in the year 2004 until 2010, YLPM did not meet the criteria for the manufacturing license. YLPM's shareholders funds as at FYE 2010 exceeded RM2.50 million. YLPM only applied for and obtained the manufacturing license in 2012. Notwithstanding the breach in requirement in relation to the late application, YLPM had successfully obtained the manufacturing license in 2012 and to-date, has not received any notice nor sanctions from MITI on the non-compliance. As at the LPD, YLPM (our manufacturing arm) holds a valid manufacturing licence issued by MITI.

(c) Workers' Minimum Standards of Housing and Amenities Act 1990

Pursuant to the Worker's Minimum Standards of Housing and Amenities (Amendment) Act 2019, which amended the Worker's Minimum Standards of Housing And Amenities Act 1990 and the Employees' Minimum Standards of Housing, Accommodations and Amenities (Accommodation and Centralized Accommodation) Regulations 2020 that came into force on 1 September 2020 ("**WMSHA**"), employers must comply with the WMSHA, which includes providing minimum space requirement for workers' accommodation, basic facilities as well as safety and hygiene standards.

The WMSHA further provides that no employer or centralised accommodation provider shall use any buildings as accommodation if the building is unfit for human habitation in accordance with the relevant written laws. The employer or centralised accommodation provider shall ensure that every accommodation provided for employees complies with the minimum standards required under WMSHA or any regulations made thereunder.

Pursuant to the WMSHA, no accommodation shall be provided to an employee unless certified with a Certificate for Accommodation. WMSHA provides that an employer who contravenes the WMSHA 2019 commits an offence and shall, on conviction, be liable to a fine not exceeding RM50,000. We provide accommodation to our employees at the 3-storey hostel building located within the vicinity of our Manufacturing Facilities set out in Section 6.21.1(a). As at the LPD, we hold a valid Certificate for Accommodation issued by the Jabatan Tenaga Kerja Semenanjung Malaysia ("**JTKSM**").

A property is not required to be certified with a Certificate of Accommodation if the property is to accommodate our Director and any employees fall outside the definition of "employee" under subsection 2(1) of the Employment Act 1955, namely employees earning less than RM2,000.00 a month and manual labour. As such, our property set out in Section 6.21.1(e) is not required to be certified with the Certificate of Accommodation.

(d) Fire Services Act 1988

The Fire Services Act 1988 ("**FSA**") essentially contains provisions in law required for an effective and efficient functioning of the Fire and Rescue Department of Malaysia ("**FRD**"), for the protection of persons and property from fire risks and for purposes connected therewith. The FSA provides, among other things, that a fire certificate be issued only after the designated premises have been inspected and the Fire and Rescue Department of Malaysia is satisfied that there are adequate facilities for life safety, fire prevention, fire protection and firefighting.

Failure to maintain the fire certificate pursuant to the FSA constitutes an offence, which is punishable on conviction by a fine not exceeding RM5,000 or imprisonment for a term not exceeding 3 years or both. Pursuant to the Fire Services (Designated Premises) (Amendment) Order 2020, our property set out in Section 6.21.1(a) is regarded as designated premises whereby a fire certificate is required. As at the LPD, we hold a valid fire certificate issued by the FRD.

Details of the major approvals, licences and permits issued to our Group in order for us to carry out our operations are set out in Section 6.15 above. Save for the late application of YLPM's manufacturing license during 2010, there are no other material laws, regulations, rules or requirements governing the conduct of our business and/or major environmental issue which may materially affect our operations.

Thailand

(a) Repatriation of Funds

Under the laws of Thailand, repatriation of funds to foreign investors may be done in the following manner:

(i) Capital reduction whereby Yew Lee Thailand may reduce its capital by reducing the par value of each share or by reducing the number of its shares down to not less than 25% of its capital. The capital reduction must be approved by a special resolution passed at an extraordinary general meeting of its shareholders (Sections 1224 and 1225 of the Thailand Civil and Commercial Code).

(ii) Distribution of dividend whereby dividends distributed by Yew Lee Thailand must be made from the profits of the company in proportion to the paid-up share capital of each share.

(iii) Payment of principal and interest of loan whereby any existing loan (if any) owing by Yew Lee Thailand and YLPM can be repaid in kind by goods or other property if the lender accepts the amount of the debt will be extinguished at the amount equal to the market value of the goods or other property at the time and place of delivery (Section 656 of the Thailand Civil and Commercial Code).

(iv) Distribution of capital or benefits on a winding-up procedure whereby the capital of a company can be divided amongst the shareholders upon its liquidation but only if the company has sufficient assets or funds to pay all its debts or perform all its obligations (Section 1269 of the Thailand Civil and Commercial Code).

(b) Distribution of Dividends

The laws of Thailand also provide that the matters mentioned in Section 6.24(a)(ii) above shall be subject to the following:

(i) The declaration of dividends must be approved by a resolution passed at an annual general meeting or an extraordinary general meeting of the shareholders of Yew Lee Thailand. An interim dividend payment can be declared from time to time if it appears to the Board of Directors that Yew Lee Thailand has profits justified to be paid to its shareholders (Sections 1200 and 1201 of the Thailand Civil and Commercial Code).

(ii) Yew Lee Thailand must reserve funds at each distribution of dividend of at least 5% of its profits until its reserve funds reaches 10% of its capital or more (Section 1202 of the Thailand Civil and Commercial Code and Article 18 of the articles of association of Yew Lee Thailand).

(c) Withholding Tax

In relation to taxation, the repatriations of funds abroad from Yew Lee Thailand to YLPM mentioned in Section 6.24(a) are subject to the following withholding taxes:

(i) The capital reduction amount which does not exceed the total amount of the profits and the reserve funds of Yew Lee Thailand payable to YLPM is a taxable/assessable income of YLPM and it is subject to the withholding tax at the rate of 15% (Sections 40(4)(d) and 70 of the Thailand Revenue Code).

(ii) The dividend of the Yew Lee Thailand payable to YLPM is a taxable/assessable income and it is subject to withholding tax at the rate of 10% (Sections 40(4)(b) and 70 of the Thailand Revenue Code).

(iii) The principal of the loan repaid to YLPM is not a taxable/assessable income of YLPM and it is not subject to the withholding tax. Only the interest on the loan paid to YLPM is a taxable/assessable income and it is subject to withholding tax at the rate of 15% (Sections 40(4)(a) and 70 of the Thailand Revenue Code).

(iv) The capital of Yew Lee Thailand payable to YLPM due to the winding-up of Yew Lee Thailand is not a taxable/assessable income and it is not subject to the withholding tax. Only the benefits payable to YLPM due to the winding-up of Yew Lee Thailand that exceed the capital of the Yew Lee Thailand is a taxable/assessable income and it is subject to the withholding tax at the rate of 15% pursuant to Sections 40(4)(a) and 70 of the Thailand Revenue Code). When Yew Lee Thailand repatriates funds to YLPM, Yew Lee Thailand is required to withhold applicable withholding taxes mentioned above from the funds payable and remit the taxes withheld to the Thai Revenue Department (Sections 50(2)(a) and (e), 52 and 70 of the Thailand Revenue Code).

When Yew Lee Thailand repatriates funds to YLPM, Yew Lee Thailand is required to withhold applicable withholding taxes mentioned above from the funds payable and remit the taxes withheld to the Thai Revenue Department.

(d) Establishment of Company

At least 3 persons must act as promoters to establish a private limited company, with each promoter holding at least one share, thus becoming a shareholder upon incorporation (Section 1097 of the Thailand Civil and Commercial Code). It is also a requirement that the majority shareholdings of a company incorporated in Thailand to be held by Thai natural or juristic persons.

(e) Foreign Investment

Pursuant to the Foreign Business Act A.D. 1999, a foreign company (i.e. a company in which half or more of its equity interest are held by non-Thai natural or juristic persons) is prohibited to operate in Thailand unless the company possesses a valid foreign business license issued by the Commercial Registration Department. For any non-compliance to this provision, the company shall be punishable with an imprisonment of not exceeding 3 years or fine from THB100,000 to THB1,000,000 or both and the court shall order a stoppage of the business operation or the dissolution of the business or order a cessation of the shareholding.

Subsequently, Yew Lee Thailand decided not to apply for foreign business license and decided to focus solely on undertaking trading activities in Thailand as a local company, after taking into consideration the cost to be incurred in setting up new manufacturing operations in Thailand. As such, YLPM decided to dispose its 55.0% equity interest held in Yew Lee Thailand to Yanee Thittaram, which was completed 27 March 2020 in order to comply with the laws of Thailand whereby the majority shareholdings of a local company in Thailand shall be held by Thai nationals. For a period of approximately 5 months between the commencement of trading operations on 8 November 2019 and completion date of the disposal on 27 March 2020, Yew Lee Thailand operated without a foreign business license constitutes an offence which is punishable with an imprisonment of not exceeding 3 years or fine from THB100,000 (equivalent to approximately RM14,130) to THB1,000,000 (equivalent to approximately RM144,300) or both and the court shall order a stoppage of the business operation or the dissolution of the business or order a cessation of the shareholding. Notwithstanding the short period of operations without foreign business license, Yew Lee Thailand has not received any notice nor sanctions from the relevant authority as at the LPD. Upon completion thereafter, Yew Lee Thailand is not required to have any business license to carry out its business activities in Thailand.

Indonesia

(a) Repatriation of Funds

Under the laws of Indonesia, repatriation of funds to foreign investors may be done in the following manner:

(i) Yew Lee Indonesia may buy back its issued shares provided that the share repurchase does not cause the net worth of Yew Lee Indonesia to be less than the amount of the issued capital plus the statutory reserve that has been set aside. In addition, the amount of nominal value of all shares repurchased by Yew Lee Indonesia must not exceed 10% from the amount of capital in Yew Lee Indonesia (Article 37 of Law Number 25 of 2007).

(ii) Reduction of issued and paid-up capital by recalling or decreasing in par value of shares. The capital reduction must be approved at the General Meeting of Shareholders ("**GMS**") at least 2/3 of the total shares with voting rights attend or be represented at the GMS and a decision is valid if it is approved by at least 2/3 of the total votes cast (Article 47 of Law Number 25 of 2007).

(iii) Distribution of dividends.

(b) Distribution of Dividends

The distribution of dividends distributed by Yew Lee Indonesia must be taken from the net profit of Yew Lee Indonesia after an allowance of 20% of the total issued and paid-up capital is made for the company's reserves which have been approved by the annual GMS (Article 70 and Article 71 of the Law Number 40 of 2007).

(c) Withholding Tax

All dividends distributed by Indonesian companies are subject to a withholding tax. There are different tax rates on dividends, depending on the resident status of the person receiving the dividends. For non-resident, the dividends received are subject to a withholding tax rate of 20%. However, non-residents who are tax resident of certain countries may benefit from bilateral tax treaty between Indonesia and their origin country. Under tax treaty between Indonesia and Malaysia, all dividends received by Malaysian resident from Indonesian companies shall be subject to a withholding tax rate of 15%.

When Yew Lee Indonesia distributes dividend to YLPM, Yew Lee Indonesia is required to withhold applicable withholding taxes mentioned above from the dividends payable and remit the taxes withheld to the Indonesia Tax Office.

(d) Foreign Investment

In compliance with the Law Number 25 of 2007, all foreign investors who wish to invest in Indonesia must establish a company in the form of a limited liability company and such company must be owned by at least 2 shareholders, either individual or company. After such establishment, the company must be registered through the Online Single Submission to obtain a business identification number and an operational and commercial permit. For any non-compliance to this provision, the company will be prohibited to operate.

6.25 OUR FUTURE PLANS AND BUSINESS STRATEGIES

Our business strategies are to maintain sustainable growth in our business and create long term shareholder value. To achieve our business objectives, we will implement the following business strategies over a period of 12 to 36 months from our Listing:

6.25.1 We intend to expand our range of industrial brushes and continue to strengthen our market position in the industrial brush industry in Malaysia

We will continue our focus in the industrial brush industry in Malaysia where we have built our track record and reputation. According to the IMR Report, we are one of the key industry players in the industrial brush industry in Malaysia, with an estimated market share of 12.4% of the total size of the industrial brush industry in Malaysia of RM254.5 million in 2021, based on our Group's revenue from the manufacturing of industrial brushes segment of RM31.6 million during the FYE 2021.

Our Group aims to immediately commence our future plans to further expand our range of industrial brushes by developing customisable industrial brushes with features, design and sizes that caters to the specific manufacturing requirements and needs of other end-customers such as the quarry sector as well as semiconductor industry and glass making sectors. This will allow us to further diversify our customer base whilst reducing our dependency on the rubber gloves manufacturing industry, as well as enabling us to further improve and expand our existing product offerings. However, the reduction in rubber glove prices will not have any impact on our Group's future plans, as our industrial brushes are wear and tear items that needs to be replaced frequently, depending on the frequency of replacement and extent of usage in their manufacturing activities. Furthermore, the demand for our industrial brushes is dependent on the output/capacity of rubber gloves manufactured as well as the capital investments in manufacturing lines made by our customers in the rubber gloves manufacturing industry.

We also intend to continuously capitalise on the growing market demand for specific industrial brushes that we currently manufacture (such as lath brush, circular brush, disc brush and custom-made brushes) and increase our revenue from this product segment. This is in view of the ongoing COVID-19 pandemic outbreak which has resulted in increasing demand for our range of specific industrial brushes by key industries, which includes rubber gloves manufacturing, food and beverages and consumer products industries.

As such, we have allocated RM3.60 million from our IPO proceeds to make advance purchases of monofilament materials used in the manufacturing of industrial brushes (such as nylon, PT, PET, PP, antistatic and abrasive nylon) to be utilised within 18 months from the date of our Listing to support the increase in our manufacturing activities in tandem with the increase in demand for our range of industrial brushes. Such advance purchases will improve our overall inventory levels and availability of raw materials for the manufacturing of industrial brushes, which will shorten overall lead time for delivery of industrial brushes to our customers. The above purchase of monofilament materials will be purchased within 18 months from the date of our Listing.

6.25.2 We intend to improve our manufacturing efficiency and automate our manufacturing processes to support the long-term growth of our business

Currently, certain of our manufacturing processes (such as cutting of filament hanks as well as trimming and flagging of bristles) and manufacturing of certain types of industrial brushes (such as lathe brushes, strip/spiral brushes) still requires the use of manual labour. Manual manufacturing activities are labour intensive and takes up significant manufacturing time.

In order to reduce our dependency on manual labour, we plan to increase automation levels of our manufacturing process by acquiring additional automated machineries and equipment (such as semi-automated CNC continuous cycle drilling and filling machines, CNC lathe machine, CNC milling machine, trimming and flagging machine, bristle cutting machines and plastic injection moulding machines). In addition, we intend to acquire to acquire additional manufacturing machineries and equipment (such as strip brush/spiral brush machines) to reduce the use of manual labour for the manufacturing of these range of brushes. As at the LPD, our entire manufacturing processes are semi-automated. We anticipate that our overall automation level process to be 89.2% semi-automatic and 10.8% fully automated upon the purchase of the new manufacturing machineries and equipment arising from our Public Issue. The acquisitions of the abovementioned additional automated machineries and equipment will be made within 12 months from the date of our Listing.

These manufacturing machineries and equipment will enable us to further increase the quality consistency of our industrial brushes. In addition, this will further enable us to manufacture different type of customised industrial brushes based on our customers' specific manufacturing requirements. This plan is in-line with the Government of Malaysia's initiative towards Industry 4.0 which encourages the adoption of automation in manufacturing processes.

Presently, it takes time for our Group to hire workers and thus, skilled workers who have resigned may not be replaced immediately. Additionally, new skilled workers will undergo on-the-job training to gain sufficient skills and expertise to operate with minimal supervision and during this time, we may be faced with insufficient experienced skilled workers. As such, we have allocated RM10.90 million or 29.2% of the proceeds from our Public Issue for the acquisition of additional manufacturing machineries and equipment within 12 months from the date of our Listing, as set out in Section 4.9. By automating through automated machines, we will be able to minimise the challenges we may face when we rely on skilled workers.

The use of automated manufacturing machineries and equipment will enable us to increase the automation of our manufacturing process and improve operating capacity of the manufacturing process for our industrial brushes by approximately 1.18 million pieces of industrial brushes per annum, measured based on the increase in manufacturing lines from 14 CNC lines (as at LPD) to 18 CNC lines.

6.25.3 We plan to expand our trading of industrial hardware and machinery parts business segment

As we continue to grow, we intend to expand our market share and presence in the trading of industrial hardware and machinery parts segment in other parts of Peninsular Malaysia, especially in the central and southern regions of Peninsular Malaysia, within 36 months from the date of our Listing. Our trading segment continues to play an important role in our business as it complements our manufacturing of industrial brushes business segment by supporting our customers with their manufacturing or production hardware needs. This is also in line with our objective to be able to provide a comprehensive range of industrial brushes, industrial hardware and machinery parts which has allowed our Group to cross sell our products to our customers.

To achieve this, we have allocated the sum of RM1.80 million from our IPO proceeds to undertake the renovation of the New Office, which are expected to be completed within 36 months from the date of our Listing, which is expected to be commence and completed within 6 months from the date of delivery of vacant possession of the New Office to us. The New Office shall house YLPH's new sales office cum warehouse facility upon completion of the renovation (which is expected to be completed within 6 months from the date of delivery of vacant possession of the New Office to us). The relocation is part of existing expansion plans for our trading and distribution of industrial hardware and machinery parts segment in the central region of Peninsular Malaysia.

Upon completion in April 2024, YLPH shall relocate to the New Office, which shall house YLPH's sales office and warehouse space upon completion and act as a platform to facilitate any pre-sales enquiries and activities associated with our range of industrial hardware and machinery parts that we trade and distribute. We will then be able to provide our potential customers with product demonstrations and highlight the key features and capabilities of various models of industrial hardware and machinery parts.

The warehouse space at the New Office will allow us to stock-up a comprehensive range of industrial hardware and machinery parts, thus reducing the delivery time to our customers. A shorter time to delivery is critical to ensure that our customers' manufacturing activities and operations are not disrupted.

6.25.4 We plan to expand our geographical presence to international markets

In 2019, we have expanded our presence in international markets, particularly Thailand and Indonesia via Yew Lee Thailand and Yew Lee Indonesia to further expand our supply of industrial brushes. We also plan to distribute our range of industrial hardware and machinery parts to these markets. We believe these markets present a pool of opportunities for us to expand our geographical presence in light of positive market prospects in these countries, particularly rubber gloves manufacturers and E&E industries.

In order to support our overseas expansion plans, we plan to expand our sales and administrative team, by hiring 3 additional sales executives and customer service representatives, who are expected to join our Group by the first half of 2022 and will be responsible to carry out sales and marketing activities in these markets. At present, Yew Lee Thailand and Yew Lee Indonesia have their own separate sales and marketing team. We shall also leverage on our network of existing customers to further cross sell our range of products as well as tap on our existing suppliers and agents to secure new customers in these markets.

We may also consider appointing local distributors in the respective country to represent our Group in marketing our Group's products, as well as provide on-site and off-site technical support in these markets. At present, we are in discussions with several potential distributors with experiences and network in Thailand and Indonesia for a potential non-exclusive distributorship arrangement in these countries. We are in the midst of discussions with potential parties for their appointment as our distributors and expect to finalise their appointments before the end of 2022. These distributors are expected to assist us in expanding our existing pool of customers in the rubber gloves manufacturing industry into other industries as well as geographical expansion into neighbouring countries, such as Vietnam and Cambodia. Presently, we do not have any plans to set up a physical presence in Vietnam as we have limited exposure and experience in Vietnam, save for our 2 existing customers in Vietnam, where we currently sell our products to.

We expect to incur expenses of approximately RM0.50 million per annum for the payment of staff salaries of our new sales and administrative team as well as marketing expenses in both Thailand and Indonesia. These business expansion expenses shall be funded via our internally generated funds in these countries.

6.26 PROSPECTS OF OUR GROUP

We expect our revenue and growth to continue to be dependent on the rubber gloves manufacturing industry in the next 2 years. According to IMR report, the performance of the local industrial brush is reliant on performance of its end-user markets including the E&E, semiconductor and rubber gloves manufacturing industries. As a crucial part in the global supply chain, Malaysia has long emerged as an established manufacturing hub providing quality products across the globe and also locally. At the same time, the Government has also been actively promoting the growth of our manufacturing industries to remain competitive in the global arena. As such, the expansion in our local manufacturing industries is expected to create rising demand for industrial brushes in particularly locally made industrial brushes.

Factors boosting growth within the industrial brush industry in the country is likely to come from the expansion in a broad-range of end-user markets including the rubber gloves and agricultural industries. In addition, technological advancement that has spur the use of semiconductor in both traditional and non-traditional industries is also expected to boost demand for industrial brushes. However, the industry is expected to be negatively impacted by geopolitical tension across the globe affecting economic activities. At the same time, while the pandemic is still expected to pose disruptions to the global supply chain, global economic activities are expected to continue to pick up in line with global vaccination efforts.

On the supply side, the industry is expected to be boosted by efforts from the Government to grow the local manufacturing sector, as well as the growing sophistication in manufacturing technology. However, as with most manufacturing industries, the industrial brush industry is labour intensive and is expected to be hampered by labour shortage and high dependency on foreign workers. The challenging operating environment due to the COVID-19 pandemic and lockdown measures causing disruptions in raw material supply is also expected to negatively affect the industry in the near-term.

Overall, while the Malaysian economy had been hampered by the COVID-19 pandemic, the industrial brush industry had continued to expand due to Malaysia's role as an important part within the global supply chain, in particular the production of rubber gloves, semiconductors and E&E products. The local industrial brush industry expanded at a low double-digit pace of 12.7% in 2020 and further expanded by 27.4% in 2021 to reach RM254.5 million. Going into 2022, the demand for gloves will still remain high with continue usage in industries such as rubber gloves manufacturing, food and beverages, E&E and semiconductor industries, therefore pushing the demand for industrial brushes translating into a growth of 12.0% for the year. From 2023 to 2026, a global adjustment through an endemic stage is expected, with a gradual recovery of the global economy to pre-pandemic levels. This will provide for a more sustainable growth of between 8.0%

and 9.5% for the respective years as the industrial brush industry normalise after having 3 years (in 2020 to 2022) of higher growth. According to the IMR Report, the industry is projected to expand at a CAGR of 9.6% to reach RM402.3 million in 2026.

Nevertheless, we are ready to capitalise on the future growth prospects in the industrial brush industry (as set out in Section 7), as follows:

(a) leveraging on our competitive strengths (as set out in Section 6.10);

(b) implementing our business strategies (as set out in Section 6.25); and

(c) capture future opportunities by purchasing additional manufacturing machineries and equipment, construction of our new warehouse facilities and 3-storey office building as well as renovation of our New Office.

6.27 EMPLOYEES

As at LPD, we have a total workforce of 141 employees, of which 130 are permanent employees while 11 are contractual workers. Our Group's foreign employees are involved in the production, delivery and warehousing duties. The following sets out the number of employees in our Group according to the business function and department for FYE 2020, FYE 2021 and as at LPD:

	FYE 2020	FYE 2021	As at LPD
Categories			
Management	10	10	14
Sales and marketing	13	12	8
Accounting and finance	12	10	8
Human resource and administrative	7	7	8
Production & Quality Control	85	85	84
Logistics & Warehouse	19	16	16
Purchasing	3	3	3
Total	**149**	**143**	**141**
Locations			
Malaysia	136	132	128
Thailand	11	10	12
Indonesia	2	1	1
Total	**149**	**143**	**141**
Nationality			
Local	97	100	98
Foreigners:			
- Indonesia	1	-	-
- Nepal	19	13	12
- Myanmar	22	20	19
- Thailand	10	10	11
- Singapore	-	-	1
Total	**149**	**143**	**141**

To-date, we have not faced any difficulties in replacing the foreign workers due to the hiring freeze imposed by the Ministry of Human Resources until 15 February 2022, as we are able to source for replacement local workers via the introduction by our employment agency.

As at LPD, all of our foreign workers in Malaysia have valid working permits. As at LPD, none of our employees are member of any union nor has there been any major industrial dispute in the past.

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6. INFORMATION ON OUR GROUP *(cont'd)*

6.28 MAJOR CUSTOMERS

Our Group's top 5 major customers for the FYEs 2018, 2019, 2020 and 2021 are as follows:

No.	Customers	Type of business activities	Country	Revenue RM'000	Revenue %	Products sold	[(1)]Length of relationship Years
FYE 2018							
(1)	Top Glove	Rubber gloves manufacturing	Malaysia	10,355	37.2	Industrial brushes, industrial hardware and machinery parts	20
(2)	VRG Khai Hoan Joint Stock Company	Rubber gloves manufacturing	Vietnam	2,586	9.3	Industrial brushes	10
(3)	Riverstone Holdings Limited	Rubber gloves manufacturing	Malaysia	1,495	5.4	Industrial brushes, industrial hardware and machinery parts	13
(4)	Latexx Manufacturing Sdn Bhd	Rubber gloves manufacturing	Malaysia	1,223	4.4	Industrial brushes, industrial hardware and machinery parts	20
(5)	Integrated SCM Co. Ltd	E&E contract manufacturer	Thailand	1,113	4.0	Industrial brushes, industrial hardware and machinery parts	13
		Total		**16,772**	**60.3**		
FYE 2019							
(1)	Top Glove	Rubber gloves manufacturing	Malaysia	10,985	37.6	Industrial brushes, industrial hardware and machinery parts	20
(2)	VRG Khai Hoan Joint Stock Company	Rubber gloves manufacturing	Vietnam	1,279	4.4	Industrial brushes	10
(3)	Riverstone Holdings Limited	Rubber gloves manufacturing	Malaysia	1,538	5.3	Industrial brushes, industrial hardware and machinery parts	13
(4)	Careplus Group	Rubber gloves manufacturing	Malaysia	1,433	4.9	Industrial brushes, industrial hardware and machinery parts	6
(5)	Latexx Manufacturing Sdn Bhd	Rubber gloves manufacturing	Malaysia	1,367	4.7	Industrial brushes, industrial hardware and machinery parts	20
			Total	**16,602**	**56.9**		

6. INFORMATION ON OUR GROUP *(cont'd)*

No.	Customers	Type of business activities	Country	Revenue RM'000	Revenue %	Products sold	[(1)]Length of relationship Years
FYE 2020							
(1)	Top Glove	Rubber gloves manufacturing	Malaysia	17,134	40.8	Industrial brushes, industrial hardware and machinery parts	20
(2)	Hartalega Group	Rubber gloves manufacturing	Malaysia	2,456	5.9	Industrial brushes, industrial hardware and machinery parts	11
(3)	VRG Khai Hoan Joint Stock Company	Rubber gloves manufacturing	Vietnam	2,065	4.9	Industrial brushes	10
(4)	Latexx Manufacturing Sdn Bhd	Rubber gloves manufacturing	Malaysia	1,768	4.2	Industrial brushes, industrial hardware and machinery parts	20
(5)	Careplus Group	Rubber gloves manufacturing	Malaysia	1,479	3.5	Industrial brushes, industrial hardware and machinery parts	6
			Total	**24,902**	**59.3**		
FYE 2021							
(1)	Top Glove	Rubber gloves manufacturing	Malaysia	14,592	32.1	Industrial brushes, industrial hardware and machinery parts	20
(2)	Precious Mountain Enterprise Corporation Taiwan Branch	Rubber gloves manufacturing	Taiwan	2,614	5.7	Industrial brushes	2
(3)	Careplus Group	Rubber gloves manufacturing	Malaysia	2,072	4.6	Industrial brushes, industrial hardware and machinery parts	6
(4)	Latexx Manufacturing Sdn Bhd	Rubber gloves manufacturing	Malaysia	1,827	4.0	Industrial brushes, industrial hardware and machinery parts	20
(5)	Hartalega Group	Rubber gloves manufacturing	Malaysia	1,815	4.0	Industrial brushes, industrial hardware and machinery parts	11
			Total	**22,920**	**50.4**		

Note:

(1) Calculated up to the LPD.

6. INFORMATION ON OUR GROUP *(cont'd)*

For the past 4 FYEs, our major customers contributed between 50.4% and 60.3% of our Group's total revenue. Our major customers for the past 4 FYEs include Top Glove, Hartalega Group, Latexx Manufacturing Sdn Bhd, Careplus Group, Riverstone Holdings Limited, VRG Khai Hoan Joint Stock Company and Precious Mountain Enterprise Corporation Taiwan Branch, which are all involved in the rubber gloves manufacturing industry, whilst Integrated SCM Co. Ltd is an E&E contract manufacturer with manufacturing facilities based in Thailand.

The rubber glove manufacturing industry has been our major revenue contributor during the financial years under review, contributing 77.4%, 78.7%, 88.0% and 85.4% of our Group's total revenue for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021, respectively. Our major customers from the rubber gloves manufacturing industry include Top Glove, Hartalega Group, Latexx Manufacturing Sdn Bhd, Careplus Group, Riverstone Holdings Limited, VRG Khai Hoan Joint Stock Company and Precious Mountain Enterprise Corporation Taiwan Branch. As such, we are dependent on the major customers from the rubber gloves manufacturing industry for our success and growth. Kindly refer to Section 8.2.1 of this Prospectus for further details on the risk factors on the dependency on the major customers from the rubber gloves manufacturing industry.

As stated in Section 6.25.1, our business strategy is to further expand our range of industrial brushes to cater to the needs of other industries such as the quarry sector as well as semiconductor industry and glass making sectors to mitigate our dependency on the rubber gloves manufacturing industry.

We do not enter into any long-term contract with our customers for the manufacturing of industrial brushes as well as industrial hardware and machinery parts as these are wear and tear items that needs to be replaced frequently, depending on the frequency of replacement and extent of usage in their manufacturing activities. Despite the absence of long-term contract, we have maintained good working relationship with all our major customers and are able to secure repeated orders from them. Prior to servicing these customers, we were required to undergo a stringent qualification process and we have since become one of their approved vendors. We have also entered into various non-disclosure agreements which set out the non-disclosure terms for confidential information obtained from our customers. However, we are not dependent on these agreements as our industrial brushes are manufactured based on purchase orders basis. Moving forward, our Group expects our major customers in the rubber gloves manufacturing industry to continue contributing to our Group's revenue. To mitigate our dependency on the rubber gloves manufacturing industry, we will continue to, widen our customer base and cater to more diversified end-customers from different industries.

6. INFORMATION ON OUR GROUP *(cont'd)*

6.29 MAJOR SUPPLIERS

Our Group's top 5 major suppliers, as a percentage of our total purchases, for the FYEs 2018, 2019, 2020 and 2021, are as follows:

No.	Supplier	Purchase value RM'000	Purchase value %	Country	Products sourced	Segments	[1]Length of relationship Years
FYE 2018							
(1)	Tai Hing Nylon Filament Products Co. Ltd	3,275	21.9	Hong Kong	Monofilament materials	Manufacturing	15
(2)	Shen Zhen City Feng He Trading Co. Ltd	2,418	16.2	China	Monofilament materials	Manufacturing	7
(3)	Kimason Hardware Industries Sdn Bhd	890	6.0	Malaysia	Industrial hardware and machinery parts	Manufacturing and trading	20
(4)	Festo	625	4.2	Malaysia	Automation parts	Trading	20
(5)	Syarikat Logam Unitrade Sdn Bhd	411	2.8	Malaysia	Industrial hardware and machinery parts	Trading	20
	Total	**7,619**	**51.1**				
FYE 2019							
(1)	Tai Hing Nylon Filament Products Co. Ltd	3,043	19.3	Hong Kong	Monofilament materials	Manufacturing	15
(2)	Shen Zhen City Feng He Trading Co. Ltd	1,773	11.2	China	Monofilament materials	Manufacturing	7
(3)	K.R. Plastic Industries Co Ltd	1,484	9.4	Thailand	Monofilament materials	Manufacturing	18
(4)	Kimason Hardware Industries Sdn Bhd	495	3.1	Malaysia	Industrial hardware and machinery parts	Manufacturing and trading	20
(5)	Festo	756	4.8	Malaysia	Automation parts	Trading	20
	Total	**7,551**	**47.8**				
FYE 2020							
(1)	Tai Hing Nylon Filament Products Co Ltd	4,297	21.7	Hong Kong	Monofilament materials	Manufacturing	15
(2)	Shen Zhen City Feng He Trading Co Ltd	1,876	9.5	China	Monofilament materials	Manufacturing	7
(3)	Fit-Line Engineering Sdn Bhd	1,257	6.4	Malaysia	Machinery parts	Trading	21
(4)	Chin Lean Plastic Factory Sdn Bhd	800	4.1	Malaysia	Pipes	Manufacturing and trading	21
(5)	Kimason Hardware Industries Sdn Bhd	602	3.0	Malaysia	Industrial hardware and machinery parts	Manufacturing and trading	20
	Total	**8,832**	**44.7**				

6. INFORMATION ON OUR GROUP *(cont'd)*

No.	Supplier	Purchase value RM'000	Purchase value %	Country	Products sourced	Segments	[(1)]Length of relationship Years
FYE 2021							
(1)	Shen Zhen City Feng He Trading Co Ltd	6,002	23.9	China	Monofilament materials	Manufacturing	7
(2)	Tai Hing Nylon Filament Products Co Ltd	5,658	22.5	Hong Kong	Monofilament materials	Manufacturing	15
(3)	Chin Lean Plastic Factory Sdn Bhd	851	3.4	Malaysia	Pipes	Manufacturing and trading	21
(4)	Fit-Line Engineering Sdn Bhd	626	2.5	Malaysia	Machinery parts	Trading	21
(5)	K.R. Plastic Industries Co Ltd	622	2.5	Thailand	Monofilament materials	Manufacturing	19
	Total	**13,759**	**54.8**				

Note:

(1) Calculated up to the LPD.

Our top 5 major suppliers contributed 51.1%, 47.8%, 44.7% and 54.8% of our Group's total purchases for FYE 2018, FYE 2019, FYE 2020 and FYE 2021, respectively. We select our suppliers based on the pricing, production capacities, range and technical specifications, ability to meet our quality requirements and ability to deliver in a timely manner. We are not dependent on any major suppliers as we are able to source from other reliable suppliers both locally and overseas. Although we do not enter any supply agreements or arrangements with our major suppliers, our Group have maintained good working relationship with our major suppliers and we have not experienced difficulty in sourcing our raw materials, supplies and products during the financial years under review.

Our monofilament materials are mainly sourced from our suppliers based in China (including Hong Kong) as they are more suitable to be used for the manufacturing of our industrial brushes. These monofilament materials fulfil the required strength, stiffness, density, coarseness and fill materials for use in the manufacturing of industrial brushes. In contrast, the monofilament materials that are available from the local market, which are softer in texture and are mainly used for producing agricultural-based equipment (such as fishing nets and fishing baits) or other plastic-based products (such as strings and others).

We do not normally enter into any binding agreements with our suppliers for the purchase of monofilament materials to allow us the flexibility to purchase these monofilament materials from other suppliers at competitive pricing terms as well as to avoid us from being bound to meet certain purchase obligations (in terms of quantity and payment requirements) imposed by these suppliers. In the event of any disruption or termination to the source of monofilament materials from our existing major suppliers, we are able to continue sourcing for these monofilament materials from our other alternative suppliers located mainly in China with similar quality and prices.

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Protégé ASSOCIATES
BRAND | FINANCE | MARKET

The information in this Section 7 is based on market research conducted by Protégé Associates commissioned by Yew Lee Pacific Group Berhad for the purpose of the IPO.

18 April 2022

The Board of Directors
Yew Lee Pacific Group Berhad,
Level 5, Block B,
Dataran PHB, Saujana Resort,
Section U2,
40150 Shah Alam,
Selangor

Dear Sirs,

Strategic Analysis of the Industrial Brush Industry in Malaysia

Protégé Associates Sdn Bhd ("Protégé Associates") has prepared this 'Strategic Analysis of the Industrial Brush Industry in Malaysia' for inclusion into the prospectus of Yew Lee Pacific Group Berhad ("Yew Lee" or the "Company") 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 22 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, information technology ("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.

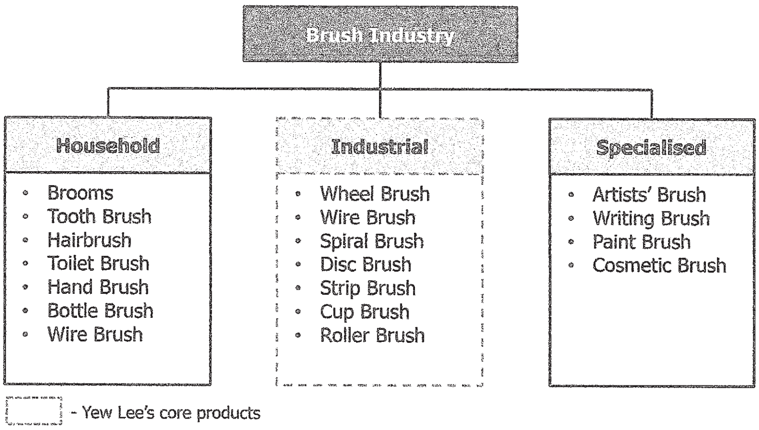
Yours sincerely,

SEOW CHEOW SENG
Managing Director

1.0 Overview of the Brush Industry

Brushes are mainly bristled tools used for cleaning, painting and surface treatment. From simple household brooms to heavy-duty power brushes and sweepers, brushes play an important role in industrial and commercial operations as well as household activities. As a whole, the brush industry can be segmented into three main categories as depicted in Figure 1.

Figure 1: Segmentation of the Brush Industry



Note: the brushes listed in the figure above is not exhaustive and only serves to provide readers with some examples of the type of brushes in each category.

Source: Protégé Associates

The most widely used household brush variety is the broom, with its variations being found in most homes and places of business. In households, commonly used brushes include brushes used for personal care such as tooth brushes, hairbrush and shaving brushes. Other types of household brushes include cleaning brushes such as toilet brush, hand brush as well as bottle brushes and wire brushes (bristles are often made from steel wire) that are used to remove slag or rust or cleaning metal surfaces.

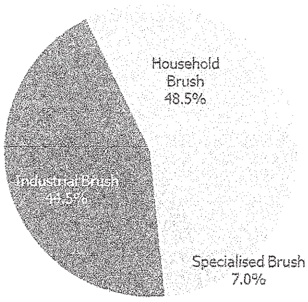
There is a wide range of industrial brushes (also known as technical brushes) that are used in various end-user industries. Industrial brushes can be hand-held or attached to a piece of machinery or equipment. A hand-held wire brush may be used for heavy-duty scrubbing while a machine-operated disc or roller brush may be to treat a surface such as polishing or cleaning. Brushes are also often used in the food processing industries, whereby cup, strip or roller brushes are used to clean fruits or vegetables prior to packaging. It is also common to see a certain type of brush being used in both household and industrial applications. A strip brush can be affixed to doors and used as seals, while at the same time strip brushes can be used as components in manufacturing equipment.

In addition, the choice of materials for the bristle can also determine a specific use for an industrial brush. Each material is chosen based on its qualities such as abrasiveness, conductivity and corrosion resistance. The flexibility of the bristles is also often taken into consideration when choosing the type of brush to reach the optimal effectiveness or to not damage the product. For brushes used for removal of surface material, materials such as abrasive nylon or bristles coated in semi-hard polymer are preferred to maximise cutting effectiveness. Brushes used for other manufacturing activities may opt to use bristles made from a variety of natural and synthetic fibers such as animal hair, polybutylene terephthalate, polyethylene terephthalate, polypropylene, nylon and abrasive nylon. Some specialised processes may require brushes with special qualities. During the fabrication of semiconductors, cleanroom-grade nylon electrostatic discharge ("ESD") dissipative or conductive brushes are used for cleaning parts and static elimination.

While brushes are widely used in households and in the manufacturing processes, brushes can also be used in other niche sectors. These specialised brushes include artists' brushes, writing brushes and paint brushes that are mainly used for artistic purposes, as well as cosmetic brushes that are used to apply cosmetics. While there may be a variety of specialised brushes, each type of specialised brush is generally only used for specific purposes.

In Malaysia, the household brush segment accounts for 48.5% market share of the local brush industry, and has an estimated value of RM277.8 million in 2021. This is followed by the industrial brush segment with 44.5% market share and an estimated value of RM254.5 million. The specialised brush segment sums up the balance with 7.0% market share with an estimated value of RM40.2 million. As Yew Lee is mainly involved in the manufacturing of industrial brushes, an overview of the industrial brush industry is provided in the section below.

Figure 2: Breakdown of the Brush Industry in Malaysia, 2021



Source: Protégé Associates

While Malaysia is an exporter of brushes, the country still relies on imported brushes to fulfil local demand. In 2021, Malaysia's imports of brushes was valued at RM386.9 million. Of this, imports of industrial brushes was valued at RM192.8 million. This was followed by household brushes with a value of RM154.3 million and specialised brushes with a value of RM39.7 million.

On the other hand, brush exports were valued at RM186.0 million for the year, with exports of household brushes accounting for RM123.4 million. Industrial brush exports were valued at RM61.7 million while specialised brushes were valued at RM0.9 million.

1.1 Industrial Brush Industry in Malaysia

Yew Lee is principally involved in the manufacturing of industrial brushes. As such, this report focuses on the industrial brush industry in Malaysia.

Being a key consumable and enabler in the manufacturing process, industrial brushes play a vital part in a wide range of industries including agriculture, automotive, electrical and electronics ("E&E"), rubber gloves, steel and woodworking industries. In particular, industrial brushes can be used to for surface finishing or deburring purposes in the automotive, steel and wood working industries. In the agricultural sectors, industrial brushes can be used for harvesting, cleaning, polishing, peeling and sorting of produce. In the E&E (mainly semiconductor) industry, brushes are used to clean the surface of wafers to avoid contamination of products as well as to eliminate negative and positive static electricity generated from industrial processing machines. Furthermore, in the rubber gloves manufacturing industry, brushes are used in processes including beading of rubber gloves as well as cleaning of formers and conveyors. Many finished end products from these industries contribute largely to Malaysia's exports, notably semiconductor products in the E&E industry and rubber gloves, whereby Malaysia is the largest supplier in the world.

Figure 3: Historical Market Size and Growth Forecast for the Industrial Brush Industry in Malaysia, 2018-2026

Year	Market Size (RM Million)	Growth Rate (%)
2018	194.9	-
2019	177.3	-9.0
2020	199.7	12.7
2021	254.5	27.4
2022	285.0	12.0
2023	312.1	9.5
2024	341.7	9.5
2025	372.5	9.0
2026	402.3	8.0

Note: CAGR (2022-2026) (base year of 2021): 9.6%

Source: Protégé Associates

The value of the local industrial brush industry is based on the industrial market consumption of industrial brush in Malaysia, which is calculated by using the value of imported industrial brush plus the value of manufactured industrial brush, less the value of exported industrial brush. Foreign manufactures/suppliers of industrial brushes are represented by local traders that import the brushes into Malaysia. However, these imported industrial brushes are generally generic products that are used for general industrial purposes. By contrast, industrial brushes manufactured by local manufacturers tend to be customised for specific machine usage to fit individual customer's requirements. As such, customers generally use imported industrial brushes to perform generic tasks. For manufacturing operations, customers tend to prefer to deal directly with local manufacturers as they have the ability to fulfil the customer's varying manufacturing needs and requirements. These local manufacturers also go through stringent qualification processes before being accepted as a vendor of the customer. This way, the customer will likely only order from qualified vendors that have passed their qualification tests.

The Malaysian industrial brush industry was valued at RM177.3 million in 2019, down from RM194.9 million recorded in 2018. The drop was mainly due to lower imports of industrial brushes into Malaysia, which make up a considerable portion of consumption of industrial brushes within the country. This figure recovered to RM199.7 million in 2020, whereby the value of imported industrial brush stood at RM150.0 million, which roughly equals to 75.1% of the industry size. At the same time, value of industrial brush exports stood at RM49.8 million while value of manufactured industrial brush was valued at an estimated RM99.5 million.

In 2020, while the coronavirus ("COVID-19") pandemic outbreak had caused disruptions through the global supply chain, the Malaysian industrial brush industry still expanded at a low double-digit pace. Industrial brushes play a crucial role in the manufacturing process of many manufacturing industries, and growth in the industry is reliant on the performance of the local manufacturing sector. While the manufacturing sector registered an overall decline of 2.6% in 2020, there has been a positive turnaround since June 2020 where the sector expanded by 3.3% in the third quarter of 2020 and 3.0% in the fourth quarter of 2020. At the same time, as the largest supplier of rubber gloves in the world, the Malaysian rubber gloves industry has been allowed to operate at full capacity since 29 April 2020 even during the Movement Control Order ("MCO") period, which is a series of national quarantine measures implemented by the Malaysian Government in response to the COVID-19 pandemic in the country. Other manufacturing sectors that are not subjected to capacity restrictions include manufacturers of personal protective equipment, pharmaceuticals, packaging and printing materials as well as medical and surgical devices. The recovery in the manufacturing sector had helped to support the expansion of the Malaysian industrial brush industry in 2020, whereby the industry grew at a pace of 12.7% during the year.

In 2021, the local industrial brush industry continued to face challenges with the resurgence of COVID-19 cases across the country. Some of the sub-sectors of the manufacturing sector were allowed to operate but at lower workforce capacity depending on the phase of the state as per the National Recovery Plan ("NRP"). The manufacturing sector as a whole rebounded by 9.5% in 2021. With the strong growth in the manufacturing sector, the industrial brush industry is estimated to expand by 27.4% to reach RM254.5 million in 2021. During the year, both imports and exports values of industrial brushes showed significant increase as compared with the previous year. Industrial brush imports reached RM192.8 million in 2021, which was an increase of 28.6% from 2020. Industrial brush exports hit a value of RM61.7 million during the year, which was an increase of 23.9% from 2020. Along with global COVID-19 vaccination efforts, demand for gloves had slowed in the second half of 2021. As hospitals have already stocked up on their glove inventory ahead of time, there was a slower demand for gloves in the latter half of the year. Notwithstanding, the improvements in the global economy in 2021 which resulted in a rebound in global manufacturing activities had more than offset the reduced demand for industrial brush from the rubber gloves manufacturing industry. Going forward, the industrial brush industry in Malaysia is forecast to reach RM285.0 million in 2022 and is expected to expand at a compound annual growth rate ("CAGR") of 9.6% to reach RM402.3 million in 2026.

2.0 Competitive Landscape of the Industrial Brush Industry

The industrial brush industry in Malaysia can generally be divided into two groups of market players, namely local manufacturers and traders. Local manufacturers are companies that manufacture and distribute industrial brush to local and overseas end-users directly or through distributors. Local manufacturers generally produce their own house brand products but sometimes also serve as original equipment manufacturers ("OEM") for other brands. In 2021, it is estimated that there are less than 10 market players that are involved in the manufacturing of industrial brushes in Malaysia. Some of the local manufacturers for industrial brushes in Malaysia include C.E. Brush Manufacturing Sdn Bhd, Dragon Pathway Sdn Bhd, Greenheart Global Sdn Bhd, Mybrush Industries Sdn Bhd and Yew Lee Industrial Brush Sdn Bhd.

On the other hand, traders are companies that import industrial brushes into Malaysia and act as an intermediary for other foreign companies and generally distribute products from more than one manufacturer and often also distribute a series of other products in addition to industrial brush. While some of these distributors opt to specialise in the trading of all types of brushes, other generally choose to trade a much wider range of products ranging from hand tools such as wrenches and screwdrivers to machinery such as electric saws, electric drills and angle grinders. Many of these distributors are also referred to as hardware shops. Some of the distributors of industrial brushes in Malaysia include Ban Lee Guan Trading Sdn Bhd, Mee Huat (M) Sdn Bhd and Maxwaytec Engineering Sdn Bhd.

Malaysia imports of industrial brush was at RM192.8 million in 2021. Industrial brush traders in Malaysia may import products from overseas industrial brush manufacturers from various overseas countries to trade locally. Some of these industrial brush manufacturers include Industrial Brushware Pty Ltd (based in Australia), Eang Lian Corporation, Hua An Brushes Co. Ltd (both based in Taiwan), Ohtsuka Brush Manufacturing Co. Ltd (based in Japan, but also manufactures other products in addition to industrial brushes), Anhui Union Brush Co. Ltd, Unimade Industry Co. Ltd (both based in China).

2.1 Industry Players Analysis

For the purpose of this report, Protégé Associates has used the following criteria when selecting other industry players in Malaysia for comparison with Yew Lee. Industry players that are comparable to Yew Lee must be/have:

- Local manufacturers involved in the manufacturing of industrial brushes;
- Registered an annual turnover of less than RM50 million based on latest publicly available financial information.

After taking into consideration the above criteria, Protégé Associates has selected the following industry players for comparison purpose. It needs to be highlighted that the list of industry players used for comparison purpose is not exhaustive and serves as a reference for readers.

C.E. Brush Manufacturing Sdn Bhd ("CE Brush")

CE Brush is principally involved in the manufacturing of industrial brush and wire brush for machinery and household use. Other industrial brushes manufactured by CE Brush include block brushes, disc brushes, strip brushes, roller brushes, wheel brushes, cup brushes and custom-made brushes. For financial year ended ("FYE") 31 October 2018, CE Brush had a revenue of RM12.8 million and profit after tax of RM3.6 million. CE Brush has been an exempt private company since 31 October 2018 and as such, the company does not need to file its annual accounts for public information with Suruhanjaya Syarikat Malaysia ("SSM").

Dragon Pathway Sdn Bhd ("Dragon Pathway")

Dragon Pathway is principally involved in the manufacturing of brooms and brushes. In particular, Dragon Pathway manufactures a variety of handheld brushes in addition to roller brushes, tube brushes, stainless steel brushes and industrial brooms. For FYE 28 February 2021, Dragon Pathway had a revenue of RM5.9 million and profit after tax of RM438,530.

Everyday Brush Industries (M) Sdn Bhd ("Everyday Brush")

Everyday Brush is principally a manufacturer of brushes and brooms for household and industrial use. Some of the types of brushes Everyday Brush manufactures include cleaning brushes, scrubbing brushes and twisted-in-wire brushes. For FYE 31 December 2019, Everyday Brush had a revenue of RM6.5 million and loss after tax of RM5.2 million.

Greenheart Global Sdn Bhd ("Greenheart")

Greenheart is principally involved in the manufacturing of industrial brush. In particular, Greenheart focuses on the manufacturing of roller brushes for the rubber gloves manufacturing industry. For FYE 31 March 2020, Greenheart had a revenue of RM1.8 million and loss after tax of RM60,375.

Mybrush Industries Sdn Bhd ("Mybrush")

Mybrush is principally involved in the manufacturing of brush bar bristles. The company is involved in the entire value chain of brush manufacturing from injection moulding, tufting to assembly of brushes. For FYE 30 June 2018, Mybrush had a revenue of RM45.0 million and profit after tax of RM7.8 million. Mybrush has been an exempt private company since 30 June 2019 and as such, the company does not need to file its annual accounts for public information with SSM.

Winstar Brush Sdn Bhd ("Winstar")

Winstar is principally involved in the manufacturing and trading of industrial and household brushes. The company manufactures staple set brush, strip brush, spiral brush and twisted-in-wire brushes. For FYE 31 December 2018, Winstar had zero revenue and loss after tax of RM4.8 million. Winstar has been an exempt private company since 31 December 2019 and as such, the company does not need to file its annual accounts for public information with SSM.

Yew Lee Industrial Brush Sdn Bhd ("YL Industrial")

YL Industrial is principally involved in the manufacturing of industrial brush, brooms and household goods. Other products of YL Industrial includes baby care brushes, cleaning brushes, scrubbing brushes, cylinder brushes, road sweeper, strip brushes, twisted-in-wire brushes and staple set brushes. For FYE 31 December 2014, YL Industrial had a revenue of RM11.2 million and profit after tax of RM142,925. YL Industrial has been an exempt private company since 31 December 2015 and as such the company does not need to file its annual accounts for public information with SSM.

Figure 4: Comparison between Yew Lee and Selected Industry Players in Malaysia^

Indicator	Yew Lee	CE Brush	Dragon Pathway	Greenheart	Mybrush	YL Industrial*
Information from FYE	31 December 2021	31 October 2018	28 February 2021	31 March 2020	30 June 2018	31 December 2014
Revenue (RM million)	45.5	12.8	5.9	1.8	45.0	11.2
Profit before Tax (RM million)	12.6	4.7	0.5	-0.03	8.4	0.3
Profit after Tax (RM million)	10.1	3.6	0.4	-0.1	7.8	0.1
Profit before Tax Margin[1] (%)	27.6	36.9	9.0	-1.7	18.7	2.3
Profit after Tax Margin[2] (%)	22.2	28.2	7.4	-3.4	17.3	1.3

Notes:

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.

The other direct industry players that provide similar activities to Yew Lee, namely Everyday Brush and Winstar have not been included into the list due to the following reasons. Winstar's financial information are private exempt. There is also insufficient publicly available information of these companies as there is no further revenue breakdown between their industrial and household brush segments. These companies may also manufacture and sell other products besides brushes as well.

[1] *Profit before Tax Margin = Profit before Tax / Revenue*
[2] *Profit after Tax Margin = Profit after Tax / Revenue*

^ All financial information are the latest publicly available filed companies audited financial numbers from SSM

** YL Industrial is not a related party to Yew Lee*

Sources: Yew Lee, SSM and Protégé Associates

2.2 Yew Lee's Market Share Analysis

For FYE 31 December 2021, Yew Lee's revenue generated from the manufacturing of industrial brushes business segment of RM31.6 million is equivalent to 12.4% share of the total size of the industrial brush industry in Malaysia of RM254.5 million in 2021.

3.0 Demand Conditions

Expansion in the Rubber Gloves Manufacturing Industry

Industrial brushes support the manufacturing industries and are used in a broad range of industries, including the rubber gloves industry. Industrial brushes are used to clean the formers and conveyor used to manufacture rubber gloves as well as used in the beading process whereby the cuffs of the rubber gloves are rolled back to increase glove strength when donning.

The COVID-19 pandemic outbreak which infected more than 508.7 million and killed more than 6.2 million (as of 18 April 2022) people around the world had led to a global health crisis that has resulted in a surge in demand for rubber gloves. As the largest supplier of rubber gloves in the world, Malaysia exported a total of RM17.36 billion (approximately 60% of global supply) worth of rubber gloves in 2019. Due to the COVID-19 pandemic, there has been a sharp increase in rubber glove exports, whereby Malaysia's glove exports more than doubled in 2020 to RM35.92 billion in 2020. Top rubber glove export destinations include the United States ("USA"), Germany, United Kingdom, Japan and China. In particular, the US remains the largest export destination, in which exports to the country reached around RM11.89 billion during the year. In 2020, the US had been one of the worst hit countries by the COVID-19 pandemic, and the severity of the pandemic is expected to drive demand for rubber gloves, which is an essential personal protective equipment ("PPE") used to combat the virus, across the globe.

In addition, the Malaysian Rubber Glove Manufacturers Association ("MARGMA") had in the early stages of the COVID-19 pandemic warned of a global shortage of rubber gloves unless glove manufacturers were allowed to raise production levels that were curtailed by the MCO in the country. This resulted in rubber glove manufacturers being allowed to resume full operations in late April 2020 despite the MCO in place, thus increasing output and increasing global supply of rubber gloves. However, despite returning to full production capacities along with increasing supply as more production lines are built and operated (Top Glove Corporation Berhad, Hartalega Holdings Berhad, Kossan Rubber Industries Berhad and Supermax Corporation Berhad have announced plans to increase more production lines, including buying land to build new factories), there is still an insufficient supply of rubber gloves to meet global demands, leading to a backlog of orders and long delivery times of upwards of a year. At the same time, there has also been an influx of public listed companies on Bursa Malaysia Securities Berhad venturing into rubber glove manufacturing due to shortage in the market. Some of these companies include Titijaya Land Berhad, Mah Sing Group Berhad, CE Technology Berhad, Inix Technologies Holdings Berhad, Kanger International Berhad, AT Systematization Berhad and HLT Global Berhad. The participation of these companies is expected to boost supply for rubber gloves and in turn drive demand for industrial brushes.

However, along with a resurgence in COVID-19 positive cases throughout Malaysia in 2021, stricter MCO protocols were set in place. Glove manufacturers were required to comply with protocols and only allowed to operate at 60% workforce capacity during the latest MCO. In addition, in line with global vaccination efforts, there had been a slowdown in demand for rubber gloves in the latter half of 2021. In particular, Malaysia had achieved 81.0% of the population having at least 2 doses of COVID-19 vaccine as at 18 April 2022. The high vaccination rate in the country had led to a recovery in economic activities, including in the manufacturing sectors. As a result, the Malaysian manufacturing sector grew by 9.5% in 2021. While there had been reduced demand for rubber gloves in the second half of the year, the robust demand in the first six months as well as higher average selling price resulted in the value of locally manufactured gloves reaching RM65.42 billion in 2021, up from RM44.22 billion in 2020. At the same time, the value of glove exports during the year also increased from RM35.92 billion in 2020 to RM54.81 billion in 2021.

Beyond the COVID-19 pandemic, demand for rubber gloves is expected to still remain strong. There has been an increasing demand for rubber gloves across various industries across the globe. Healthcare expenditure in the US, the UK as well as other advanced nations have been on the rise over the years. The increasing awareness of health and hygiene-related issues in emerging markets such as Asia, the Middle East and Africa has also led to increasing demand for rubber gloves in these regions. In addition to the healthcare industry, rubber gloves have also been increasingly used in the food services industry, especially in some developed nations where the use of rubber gloves has been mandated by the law for certain activities. At the same time, rubber gloves are also used in manufacturing industries such as the semiconductor and pharmaceutical industries. Consumption of rubber gloves in developing countries is also expected to be supported by the expansion in manufacturing activities within these regions. As such, the continued increase in demand for rubber gloves across the globe is expected to drive expansion in rubber glove manufacturing capacity, and in turn would increase the demand for industrial brushes.

Technological Advancement Spur Use of Semiconductors

In addition to the rubber gloves manufacturing industry, industrial brushes are also widely used in a wide range of end-user markets that are also in expansion mode. Technological advancement has facilitated an increasing use of E&E devices and related products in both traditional and non-traditional end-user markets. In this modern age, the use of electronics appeals to both manufacturer – as an avenue of innovation – and consumers as a source of greater convenience and value. This development has helped to create and drive demand for electronics-based technologies that have hastened the development of various electronic technologies that can be seamlessly assimilated with consumers' lifestyle needs. As such, this has significantly hastened the rollout of more advanced semiconductors that form the building-blocks of E&E devices. In particular, the trend of miniaturisation of devices due to rising needs for space efficiency as well as high mobility and connectivity has led to the creation of smaller and more efficient semiconductors.

Industrial brushes play an important role in the manufacturing of semiconductors, whereby industrial brushes are used for surface treatment processes such as removing dust and other contaminants from the surface of semiconductors or wafers. In some cases, specialised industrial brushes are used to eliminate ESD from high-end complicated semiconductors or wafers to avoid damage to the products (specialised brush bristles are used to remove ESD when they are brought in contact with semiconductors and wafers).

Malaysia remains one of the key E&E manufacturing countries in the Association of Southeast Asia Nations ("ASEAN"), and the continued growth of the local E&E industry has been fuelled by sustained inflows of foreign investment and expansion in the production of consumer-based electrical products and selected semiconductor components. The production of E&E products in Malaysia declined by a marginal 0.5% in 2020, mainly due to the COVID-19 pandemic outbreak and resulting MCO measures disrupting economic activity and the E&E manufacturing supply chain. There was, however, an improvement in terms of external trade for E&E products in 2020. Total exports of E&E products increased by 3.5% from RM373.12 billion in 2019 to RM386.29 billion in 2020. At the same time, total imports of E&E products grew by 3.0% from RM245.54 billion in 2019 to RM253.00 billion in 2020. The E&E industry in Malaysia continued to improve in 2021, with production of E&E products increasing by 14.5% to RM483.20 billion, while exports and imports of E&E products grew by 18.0% and 24.3% respectively to reach a respective value of RM455.73 billion and RM314.35 billion. While 2021 had been characterized with challenging global economic situations due to the COVID-19 pandemic as well as the trade tensions between the USA and China, Malaysia had been able to increase exports to major trading partners, in particularly China and the US. Notably, there had been an increase in exports for electronic ICs, apparatus for transmission or reception of voice, image and data as well as parts for electronic ICs to support work-from-home practices. The greater demand for E&E products and semiconductors is expected to spur more usage of industrial brushes during the manufacturing process is therefore expected to bode well for the expansion of the industrial brush industry going forward.

Increasing Demand from the Agricultural Industries

The local agriculture sector contributed 7.2% of our country's GDP in 2021. This was however a further contraction of 0.2% over 2020, mainly due to weaker oil palm output. On top of that, growth in the natural rubber, forestry and fisheries sub-sectors also declined due to MCO measures implemented during the year.

In Malaysia, there has been a gradual increase in the value of gross output across the agricultural industries over the years. Based on the latest available statistics from the Department of Statistics Malaysia, the livestock segment registered a total value of RM16.00 billion in 2020, up from RM12.69 billion in 2015. In particular, the cattle and other livestock excluding poultry sub-segments registered a value of RM6.32 billion, up from RM5.01 billion in 2015. At the same time, there has also been an overall increase in production of food crops, whereby the segment registered a value of RM6.68 billion in 2020, up from RM5.72 billion in 2015. In particular, production of sweet potato increased from 52,225 tonnes in 2018 to 56,343 tonnes in 2019 while production of cassava increased from 34,997 tonnes in 2018 to 42,285 tonnes in 2019. Production for these food crops however fell in 2020 due to COVID-19 restricting production activities.

To improve the efficiency and improve margins in the industry, the agricultural sector has been incorporating automation as well as utilising machinery and equipment in their operations. For example, industrial brushes (namely roller brushes) are used in the livestock sector to both clean as well as massage livestock such as cattle, sheep and goats, as well as swine. Industrial brush also plays an important role in the food processing industries, whereby the roller brushes (which are installed in cleaning machines) are used to clean fresh produce (in particular tuber and root vegetables) as well as seafood before they are further processed. The expansion in the agriculture sector is expected to lead to increased demand for industrial brushes used in the daily operations as well as processing of food products.

Geopolitical Tension Across the Globe Affecting Economic Activities

As a part of the global supply chain, economic activities in Malaysia are subject to geopolitical events that may affect economic activities across the globe. Global trading avenues have witnessed a rising trend of trade protectionism, led by the major economies, notably the USA and China. The trend of trade protectionism has the potential to adversely impact global trading activities, posing a downside risk to global economic growth. Furthermore, impact of the downside risk may increase if the uncertainties over trade protectionism are prolonged.

At a more recent note, the war between Russia and Ukraine has also caused disruptions to the global supply chain. As one of the largest exporters of oil in the world, Russia's involvement in the war throws oil supply from the country into doubt. This has led to oil prices spiking above USD100 per barrel and renewed supply chain disruptions with the high fuel price. The high oil prices are also likely to aggravate inflation in the US as well as in some European countries, which may affect demand from these countries.

In Malaysia, many of the end-user markets of the industrial brush industry are sensitive to economic cycles and are subject to the conditions of the global economy. As such, the trade protectionism by major economies and the Russia Ukraine war is expected to adversely affect the demand for end-user market products, and in turn demand for industrial brushes in Malaysia.

COVID-19 Disrupting Global Economic Activities

COVID-19 was officially declared a health pandemic by the Director General of the World Health Organisation on 11 March 2020. In light of the COVID-19 pandemic, the Malaysian Government had announced various stages of lockdown measures across different states or localities in the country at different point in time since 18 March 2020 namely MCO, conditional MCO, recovery MCO, enhanced MCO, full lockdown MCO as well as the NRP (i.e. a four (4) phase strategy based on three (3) indicators, i.e. (i) number of symptomatic new hospital admissions, (ii) capability of public healthcare system based on the bed utilisation rate in intensive care unit wards, and (iii) percentage of the population protected against COVID-19, based on the number of people that have received two (2) doses of vaccines).

During Phase 1 of the NRP, only 12 manufacturing sectors were permitted to operate as a 60% capacity including the aerospace, food and beverage, personal safety products and personal protective equipment (including rubber gloves), E&E (of importance to the global supply chain), healthcare and medical products, components for medical devices as well as the oil and gas sectors. An additional 6 manufacturing sectors including automotive, ceramics, furniture for export, rubber, iron and steel, and cement are permitted to operate at 80% capacity under Phase 2 while all manufacturing sectors are allowed to operate if a state has entered Phase 3 of the NRP.

While there had been a resurgence in COVID-19 cases in 2021, the high vaccination rate throughout the country had led to a recovery in economic activities. This resulted in the Malaysian economy expanding by 3.1% in 2021. In particular, the manufacturing sector rebounded by 9.5% during the year, supported mainly by export-oriented industries such as the E&E industry, as well as recovery in domestic-oriented industries such as consumer- and construction-related industries. The local Ministry of Health had also announced the transition of COVID-19 into an endemic from 1 April 2022, signalling a normalisation of business operations to pre-COVID-19 times.

4.0 Supply Conditions

Strong Support from the Malaysian Government in the Manufacturing Sector

The Malaysian Government has been supportive of the country's manufacturing sector, illustrated by the presence of various tax incentives for companies participating in the sector. The two major tax incentives being offered in the manufacturing sector are the Pioneer Status and the Investment Tax Allowance ("ITA"). These incentives encourage further growth in the manufacturing sector, leaving beneficial downstream effects for the industrial brush industry as many manufacturers utilise industrial brushes in their manufacturing processes. Furthermore, the Government has also came out with various initiatives such as the Income Tax Incentive for the Industry 4.0 Readiness Assessment and Income Tax Incentive for Industry4WRD Vendor Development Program aimed at attracting companies in the manufacturing and manufacturing-related services sectors towards the application of Industry 4.0 technology. This is expected to boost the growth of the manufacturing sector and presents an opportunity for growth for the industrial brush industry as well.

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, the automation of manufacturing facilities 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 industrial brush industry.

Labour Shortage Affecting the Manufacturing Sector

As with most manufacturing industries, the Malaysian industrial brush industry is labour intensive. With the country facing labour shortages including for skilled workers due to poor participation from Malaysians, the industrial brush industry is heavily reliant on foreign workers for its manufacturing activities. In addition, market players face another set of problems in view of the existing government policies on the employment of foreign workers. Work permits for foreign workers in Malaysia need to be renewed each year but they can stay for a limited period only and must return to their respective countries after that. In addition, in view of the current COVID-19 pandemic which resulted in closure of international borders, there is no new intake of foreign workers allowed into the country until the pandemic has been successfully controlled, and this has resulted in a shortage of foreign workers.

Other challenges in employing foreign workers include the levy rates and number of foreign workers allowed to work in Malaysia. The current levy rate for foreign workers in the manufacturing industry stands at RM1,850 and employers are now required to pay for the levies of their foreign workers instead of deducting it from the foreign workers' wages under the Employer Mandatory Commitment.

Industrial brush manufacturers in Malaysia are aware of these issues and are turning to various measures to reduce dependency on foreign workers including adopting greater use of automation as well as localising their workforce. However, any unfavourable changes in the policies and regulations on employing foreign workers could have a profound impact on the industrial brush industry.

Disruptions in Supply of Raw Materials

The performance of industrial brushes may vary depending on the raw materials used to manufacture them. At present, there are a handful of local industrial brush manufacturers in Malaysia, of which some may opt to use locally produced raw materials as input materials while others may prefer to source imported raw materials due to both quality and price considerations. Some of the imported raw materials include monofilament as well as thermoplastic resin that are used to form the base of industrial brushes. Raw material prices fluctuate in tandem with global supply and demand. The higher shale gas production in the USA in 2018 and 2019 resulted in cheap ethane feedstock in the country. This helped transform the USA into a global supplier of polyethylene. However, the subsequent economic slowdown and continued uncertainty stemming from the USA-China trade tension had led to an oversupply and pressured prices. While the depressed prices persisted into 2020 during the COVID-19 outbreak, the pick-up in global economic activities in the latter half of the year created strong demand for polyethylene to manufacture plastic products, including monofilaments. This coupled with the surge in crude oil and natural gas prices which led to higher feedstock cost for manufacturing polyethylene as well as manufacturers of polyethylene facing difficulties in production have resulted in price increases for raw material in early 2021. In addition, the fluctuations in exchange rates as well as higher freight and shipping rates have also impacted the prices of imported raw materials.

While local manufacturers are able to diversify the sourcing raw material from a number of countries, the quality of raw materials may vary from country to country as well as from supplier to supplier. Finding alternative suppliers are often time consuming and may affect company profit margins if the newly sourced raw materials require higher prices. In addition, with the COVID-19 pandemic outbreak affecting business operations across the globe, trade disruptions are expected to negatively impact global supply chains and would likely affect procurement of raw materials required for the manufacturing of industrial brushes, thus adversely affecting the local industry.

5.0 Prospect and Outlook of the Industrial Brush Industry in Malaysia

The performance of the local industrial brush industry is reliant on the performance of its end-user markets including the E&E, semiconductor and rubber glove manufacturing industries. As a crucial part in the global supply chain, Malaysia has long emerged as an established manufacturing hub providing quality products across the globe and also locally. At the same time, the Government has also been actively promoting the growth of our manufacturing industries to remain competitive in the global arena. As such, the expansion in our local manufacturing industries is expected create rising demand for industrial brushes in particularly locally made industrial brushes.

Factors boosting growth within the industrial brush industry in the country is likely to come from the expansion in a broad-range of end-user markets including the rubber gloves manufacturing and agricultural industries. In addition, technological advancement that has spur the use of semiconductor in both traditional and non-traditional industries is also expected to boost demand for industrial brushes. However, the industry is expected to be negatively impacted by geopolitical tension across the globe affecting economic activities. At the same time, while the pandemic is still expected to pose disruptions to the global supply chain, global economic activities are expected to continue to pick up in line with global vaccination efforts.

On the supply side, the industry is expected to be boosted by efforts from the Government to grow the local manufacturing sector, as well as the growing sophistication in manufacturing technology. However, as with most manufacturing industries, the industrial brush industry is labour intensive and is expected to be hampered by labour shortage and high dependency on foreign workers. The challenging operating environment due to the COVID-19 pandemic and lockdown measures causing disruptions in raw material supply is also expected to negatively affect the industry in the near-term.

Overall, while the Malaysian economy had been hampered by the COVID-19 pandemic, the industrial brush industry had continued to expand due to Malaysia's role as an important part within the global supply chain, in particular the production of rubber gloves, semiconductors and E&E products. The local industrial brush industry expanded at a low double-digit pace of 12.7% in 2020 and further expanded by 27.4% in 2021 to reach RM254.5 million. Going into 2022, while, the demand for gloves will still remain high with continue usage in industries such as rubber gloves manufacturing, food and beverages, E&E and semiconductor industries, therefore pushing the demand for industrial brushes translating into a growth of 12.0% for the year. From 2023 to 2026, a global adjustment through an endemic stage is expected, with a gradual recovery of the global economy to pre-pandemic levels. This will provide for a more sustainable growth of between 8.0% and 9.5% for the respective years as the industrial brush industry normalise after having 3 years (in 2020 to 2022) of higher growth. The industry is projected to expand at a CAGR of 9.6% to reach RM402.3 million in 2026.

6.0 General Industrial Machinery and Equipment, Components and Parts Market in Malaysia

Yew Lee is also involved in the trading of industrial machinery and equipment, components and parts. As such, Protégé Associates has provided an overview of the general industrial machinery and equipment, components and parts market in Malaysia.

The general industrial machinery and equipment ("M&E"), components and parts market in Malaysia is a sub-segment of the larger M&E industry. Other sub-segments of the M&E industry are power generating M&E, specialised M&E for specific industries and metalworking M&E. In particular, the general industrial M&E, components and parts market covers a broad category of products including air-conditioning plants, cold room equipment, elevators, cranes, conveyor systems, pumps, compressors, welding machines, fans and blowers, heat exchangers, pressure vessels, filtering equipment, pipes, valves and gaskets, bearings, gears, and actuators, etc.

The general industrial M&E, components and parts market was valued at RM65.70 billion in 2019, which was an increase of 3.1% from RM63.70 in the previous year. The market however fell to RM64.19 billion in 2020 mainly due to the COVID-19 pandemic outbreak disrupting various economic activities. The general industrial M&E, components and parts market rebounded in 2021 on top of a recovery in economic activities in the country. For FYE 31 December 2021, Yew Lee's revenue generated from the trading of general industrial M&E, components and parts business segment of RM13.5 million is equivalent to less than 0.1% share of the total size of the general industrial M&E, components and parts market in Malaysia of RM73.00 billion in 2021.

The general industrial M&E, components and parts market is the largest sub-segment and export contributor to the M&E industry. The value of exports has also been gradually increasing over the years, from RM17.56 billion in 2015 to RM20.10 billion in 2019. However, the value of exports of general industrial M&E and machine parts fell to RM18.00 billion in 2020 due to COVID-19 disrupting global economic activities before rebounding to RM21.25 billion in 2021. Some of the main export destinations for general industrial M&E, components and parts from Malaysia include Singapore, Hong Kong, Japan, USA and Australia. At the same time, while Malaysia is an exporter of general industrial M&E and machine parts, the country also imports such items to fulfil local demand. However, the value of imports has been on a decreasing trend in recent years as more local companies venture into the general industrial M&E industry and domestic production pickup. General industrial M&E and machine parts imports was valued at RM26.47 billion in 2020, down from RM28.67 billion in 2019. This figure grew to RM29.45 billion in 2021. A majority of the general industrial M&E and machine parts are imported from Japan, USA, Germany, Singapore and Taiwan.

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. In 2020, a total of 87 M&E projects were approved and injected investments valued at RM6.7 billion. In particular, a total of 46 projects were approved for the general industrial M&E, components and parts sub-segment, whereby investments amounting to RM1.7 billion were approved. The continued investments into the country have led to the development of a matured M&E industry.

Going forward, the local general industrial M&E, components and parts market is expected to continue growing in tandem with the expansion of its end-user markets. While the COVID-19 pandemic outbreak is still expected to create headwinds for the market, the rollout of vaccines across the globe and the corresponding opening up of economies is expected to bode well for the development of the market. 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, including for general industrial M&E, components and parts. The market is forecast to reach RM75.92 billion in 2022 and expand at a CAGR of 3.4% to reach RM86.28 billion in 2026.

8. RISK FACTORS

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

8.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

8.1.1 Impact of COVID-19 on our business operations and financial performance

While COVID-19 is still spreading and its final implications are difficult to estimate at this stage, it is clear that the pandemic will affect a large portion of the global population and bring about significant economic uncertainties globally. At this time, the pandemic has caused varying level of precautionary measures being declared in various cities and countries around the world, travel restrictions and border control being imposed, quarantine or movement control being established and various business being closed or operating under strict operating procedures, Malaysia included.

The ongoing COVID-19 pandemic outbreak and any possible future outbreaks of viruses may have a significant adverse effect on our Group. Firstly, a spread of such diseases amongst our employees, as well as any quarantines affecting our factories, offices and employees, may affect our ability to carry out our business. Secondly, strict operating procedures imposed by the regulatory authorities will also increase our operating costs. In addition, the current pandemic and any possible future outbreaks of viruses may also have an adverse effect on our business partners be it our customers or suppliers, resulting in lower demand for our products or shortage of or delay in raw materials necessary for us to carry out our business.

As our business is categorised under essential services, we were allowed to continue operations during the various MCO periods imposed since March 2020, albeit at lower operating capacity.

There have been several incidences where our employees were tested positive with COVID-19, as set out in Section 6.23.3. On 14 September 2021, we received a shutdown notice from the MOH as a result of 36 of our employees (comprising production workers and administrative employee) tested positive for COVID-19 at our Manufacturing Facilities. Upon a follow up check with MOH, we have since resumed our operations at our Manufacturing Facilities on 20 September 2021. Kindly refer to Section 6.23 for further information.

There is no assurance that neither our workers will not be infected by the COVID-19 virus. In the event the any of our employees is suspected of contracting the COVID-19 virus, we may need to quarantine some or all of our employees and sanitise the affected work area and other premises in our operations. In this respect, this could materially and adversely affect our business and financial performance.

Any adverse developments in relation to the COVID-19 pandemic outbreak may lead to stricter conditions, restrictions, compliance requirements and various SOPs being imposed by relevant authorities which may result in suspension of operations and higher cost of operations which will adversely affect our Group's financial performance. In addition, any possible future outbreaks of infectious diseases (including COVID-19) may impact other countries to impose country lockdown or similar measures implemented in these countries. We may face potential delays in sourcing imported raw materials and/or inputs. Any shortages in the supply of raw materials may have an impact on our manufacturing and trading activities, which in turn could affect our financial conditions.

Furthermore, any prolonged interruptions in our business operations will affect our manufacturing schedules and/or timely delivery of our products to our customers which may cause cancellation of purchase orders and may eventually impact our relationships with our customers. This could have an adverse impact on our financial performance.

Our Group will continue to monitor the ongoing developments of COVID-19 pandemic outbreak closely in order to manage risk in our operations and will introduce additional precautionary measures as appropriate.

8.1.2 Disruptions or unplanned shutdowns to our Manufacturing Facilities could materially and adversely affect our business

Our Group's business is dependent on the manufacturing operations at our Manufacturing Facilities operating smoothly and efficiently. Any disruption to or unplanned shutdowns of our facilities such as fire, power failure, floods or interruptions in water supply, breakdowns, failures or sub-standard performance of our critical machineries, or accidents may materially and adversely affect our delivery of services. Such delays may result in our Group compensating for our customers' losses and loss of future business.

During the financial years under review and up to the LPD, we have not experienced any material disruptions or unplanned shutdown at our Manufacturing Facilities (save as disclosed in Section 6.23.3). The occurrence of any of the above incidences may result in the disruption to or unplanned shutdowns of our Manufacturing Facilities which in turn may materially impact our financial performance.

8.1.3 Our continued success is dependent on our Managing Director, Executive Directors, management team and skilled employees

We attribute our success to the leadership and continued contributions of our management team, led by our Managing Director, Ang Lee Leong and Executive Directors, Chee Wai Ying, Ang Lee Seng and Ang Poh Yee. They are supported by our management team and skilled employees who have extensive knowledge and experience in our business activities and play a significant role in our day-to-day operations as well as the implementation of our business strategies.

We believe that our continued and future success is dependent on our ability to retain our management team and skilled employees, who are responsible for formulating and implementing our business strategies, business development and daily management of operations. As such, our ability to maintain the operations of our manufacturing segment is dependent on their continued service and our ability to attract, train, motivate and retain our skilled workforce. The loss of our Managing Director, Executive Directors and management team may adversely affect us. The loss of our management team simultaneously or within a short span of time without suitable and timely replacement, or our inability to attract and retain qualified and competent personnel, could adversely impact us.

8.1.4 We do not have long term contracts with our customers

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

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

8.1.5 We are exposed to fluctuation in foreign exchange rates which may impact our cost of raw materials purchased

A portion of our purchases of raw materials for manufacturing of industrial brushes as well as purchases of industrial hardware and machinery parts are denominated in USD, EUR, SGD, THB and IDR, the breakdown of which are as follows:

	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Purchases transacted in RM	8,884	59.5	8,941	56.6	12,021	60.8	12,059	48.0
Purchases transacted in USD	5,937	39.8	6,542	41.4	7,659	38.8	12,693	50.5
Purchases transacted in EUR	3	~	10	0.1	(1)-	~	1	~
Purchases transacted in SGD	99	0.7	305	1.9	6	~	340	1.4
Purchases transacted in THB	-	-	1	~	78	0.4	-	-
Purchases transacted in IDR	-	-	-	-	2	0.0	15	0.1
Total	**14,923**	**100.0**	**15,799**	**100.0**	**19,766**	**100.0**	**25,108**	**100.0**

Notes:

~ Less than 0.1%

(1) Represents less than RM1,000.

A depreciation of the RM against these foreign currencies between the time the purchase of raw materials and supplies were recorded and the payments were made to suppliers will lead to higher costs of raw materials for our manufacturing of industrial brushes as well as purchases of industrial hardware and machinery parts in RM. As our sales are mainly transacted in RM and where our Group's revenue is mainly derived locally, depreciation of the RM against these foreign currencies will ultimately affect the cost of our purchases and may adversely affect our financial performance as it would reduce our GP margin as we are unable to pass on the additional costs to our customers.

During FYE 2021, our purchases of raw materials for our manufacturing of industrial brushes as well as purchases of industrial hardware and machinery parts from our overseas suppliers denominated in USD amounted to RM12.69 million. For illustration, assuming the fluctuation of RM against the USD is 5.0% and such foreign exchange fluctuations is not passed on to customers by way of selling price changes, this will result in an increase or decrease in our GP for the FYE 2021 by RM0.63 million, depending on the direction of the foreign exchange movement between RM and USD. However, we did not face any material increase in our overall operating costs or material fluctuations in foreign exchange rates and prices of raw materials and supplies during the financial years under review, which have materially affected our Group's financial performance. At present, we do not use any financial instruments to hedge our exposure against transactions in foreign currencies. The higher purchases in foreign currencies made by our Group has also not resulted in any changes to our foreign exchange policies. However, we will continue to monitor our exposure to foreign currency movements on a regular basis for our management's assessment on the need to utilise financial instruments to hedge our currency exposure, taking into account factors such as the foreign currencies involved, exposure periods and transaction costs.

8. RISK FACTORS *(cont'd)*

We presently do not use any financial instruments to hedge our exposure against transactions in foreign currencies. We coordinate our foreign currency sales and purchases to be in the same currency as much as possible to minimise our foreign exchange exposure as a form of natural hedging. This is achieved by maintaining a USD-currency denominated bank account for the receipt from our overseas customers in a foreign currency account for payment to our overseas suppliers. The breakdown of our revenue by currencies are as follows:

	Audited							
	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
Currencies	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
RM	22,771	81.9	25,064	85.8	34,160	81.4	34,981	76.8
USD	3,652	13.1	2,651	9.1	6,741	16.1	9,880	21.7
IDR	-	-	-	-	245	0.6	664	1.5
THB	1,390	5.0	1,493	5.1	828	1.9	-	-
Total	**27,813**	**100.0**	**29,208**	**100.0**	**41,974**	**100.0**	**45,525**	**100.0**

Our realised and unrealised gain on foreign exchanges for FYE 2018 to FYE 2021 is as follows:

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Realised gain on foreign exchange	302	232	132	559
Unrealised gain on foreign exchange	22	1	16	-
Unrealised loss on foreign exchange	-	-	-	(32)
Net gain	**324**	**233**	**148**	**527**

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

8.1.6 We are subject to availability and fluctuation in prices of raw materials and supplies

The main raw materials and supplies we used in our manufacturing process include monofilament materials and plastic materials. Our raw materials are mainly sourced from Malaysia, China, Hong Kong, Thailand, Singapore and India. The cost of purchase of these monofilament materials and supplies accounted for approximately 49.2%, 49.5%, 45.8% and 58.9% of our total purchases for FYE 2018, FYE 2019, FYE 2020 and FYE 2021, respectively.

The fluctuations in the market prices of these raw materials due to changes in global supply and demand conditions may cause our Group's financial performance to be adversely affected. Any rise in our raw material prices will result in lower operating margin to our Group if we are unable to reflect the increased cost in the selling price of our products.

As at the LPD, we have not faced any difficulties in obtaining our raw materials nor have been affected by any material increase in raw material prices which have had any material adverse effect in our operations or financial performance. The prices of these raw materials have been generally stable during the financial years under review, and the prices of monofilament materials are dependent on global crude oil prices and global transportation costs. The prices of these monofilament materials have been generally stable where the price fluctuations not exceeding 15.0% during FYE 2018 to FYE 2020. However, during FYE 2021, the average cost per kg of monofilament materials increased by approximately 28.8%, which was mainly affected by the increase of global crude oil prices. We expect that the prices of monofilament materials will continue to fluctuate in tandem with the fluctuation of the global crude oil prices and global transportation costs. In addition, we have not experienced any major interruptions in supply of raw materials for our manufacturing segment during the financial years under review, including during the various lockdown periods imposed in Malaysia due to the COVID-19 pandemic outbreak. However, there can be no assurance that any shortages of raw materials or any increase in raw materials prices will not have any adverse effect on our financial performance.

8.1.7 We may not be able to effectively manage our growth or successfully implement our future plans and business strategies

In order to achieve our future plans and business strategies as set out in Section 6.25 of this Prospectus, we rely on the availability and sustainability of human capital, financial, customer support, operational and other resources. The success of our future plans and business strategies will be dependent upon, amongst others, our ability to successfully expand the range of industrial brushes as well as industrial hardware and machinery parts business segment, strengthening our market position in the industrial brush industry in Malaysia, successfully improving our manufacturing efficiency and automation of our manufacturing processes, ability to expand our warehousing capacity and office space, ability to hire and retain skilled management, as well as to obtain adequate financing when needed.

We have allocated RM24.57 million from our Public Issue proceeds to finance the purchase of additional manufacturing machineries and equipment, working capital requirements and capital expenditure for the construction of new warehouse space and office building as well as renovation of New Office. Please refer to Section 4.9 for details of our proposed capital expenditure from the Public Issue proceeds.

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

Business strategies	Cost related risks
(i) Purchase of additional manufacturing machineries and equipment	• Increased depreciation charges as well as higher machinery and equipment maintenance costs • Increased operating expenditure arising from higher machineries and equipment maintenance costs in line with the expansion in size and scale of operations at our Manufacturing Facilities • Sudden and unexpected machineries/ equipment failures
(ii) Construction of new warehouse space and office building (iii) Renovation of our New Office	• Increased depreciation charges • Increase in levy rate and minimum wages for the hiring of foreign workers for our expansion plans, which will increase our overall cost for direct labour • Increased operating expenditure arising from higher headcounts, office maintenance, utilities and related costs • Higher utilities costs, quit rent as well as higher maintenance costs (such as security, cleaning, insurance and facilities costs) • Construction/renovation delays • Ability to obtain relevant approvals/permits

If our Group fails to generate sufficient revenue to cover such additional costs and effectively grow our business, our financial performance may be adversely affected. In such an event, our Group may record lower profitability levels in the event that we are unable to pass on the increase in cost of raw materials to our customers, increase our sales volume and/or price of our products. Thus, we cannot assure that we can reduce our overall operating costs moving forward. Failure to do so, our financial performance may be adversely affected.

We are also not able to guarantee that we will be successful in executing our future plans and business strategies, nor can we assure that we will be able to anticipate all the business and operational risks arising from our business strategies, include, among others, delays in construction, delays in obtaining relevant approvals from the relevant Government bodies for the construction of our new warehouse space and office building, renovation of our New Office and delays in machines and equipment delivery, amongst others. In addition, there is no assurance that we will be successful in increasing our revenue through such future plans. Any failure to do so, including any failure or inefficiencies in managing our business growth, may lead to a material adverse effect on our business operations and financial performance.

8.1.8 Foreign operations risks

With our Group's operations consisting of operations in Thailand and Indonesia, we are subjected to foreign operations risks. These risks may include amongst others, country risk, regulatory risks and political risks which are entirely out of our Group's control and there is no assurance that these risks will not have any material adverse effects on our Group's operations and profitability.

In addition, as mentioned in Section 6.25 of this Prospectus, our Group is looking at further expanding our existing operations in Indonesia and Thailand, where we seek to expand our distribution business activities. Unfavourable developments in political, economic, government control and regulatory framework of these overseas markets may affect our Group's plans for expansion.

There is no assurance that adverse political and economic development, which is beyond our control, will not materially affect our Group's foreign operations. In such an event, our Group could face a potential loss of revenue and will have an adverse impact on our financial performance. If such adverse events occur, our financial performance will be adversely affected.

8.2 RISKS RELATING TO OUR INDUSTRY

8.2.1 We are dependent on the major customers from the rubber gloves manufacturing industry for our success and growth

The rubber glove manufacturing industry has been our major revenue contributor during the financial years under review, contributing 77.4%, 78.7%, 88.0% and 85.4% of our Group's total revenue for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021, respectively. The ongoing COVID-19 pandemic has resulted in an increase in global demand for rubber gloves, which has resulted in the increase in demand for our industrial brushes, industrial hardware and machinery parts, which has significantly contributed to the improvement of our Group's profitability levels during FYE 2020 and FYE 2021 of RM10.38 million and RM10.11 million, as compared to RM5.20 million and RM5.08 million recorded during FYE 2019 and FYE 2018, respectively. The rubber glove manufacturing industry in Malaysia is expected to be driven by the on-going COVID-19 pandemic and the resulting demand for our range of industrial brushes, especially in the short term. Thus, our financial performance is likely to move in tandem with the performance of the rubber glove manufacturing industry and as such our financial performance and business activities are dependent on the performance of our major customers in the rubber gloves manufacturing industry, in particular Top Glove which contributed 32.1% to our total revenue. Our other major customers from the rubber gloves manufacturing industry include Hartalega Group, Latexx Manufacturing Sdn Bhd, Careplus Group, Riverstone Holdings Limited, VRG Khai Hoan Joint Stock Company and Precious Mountain Enterprise Corporation Taiwan Branch.

Growth in the rubber gloves manufacturing industry generally depends on the global and domestic demand for rubber gloves which lie in various factors, such as the following:

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

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

(c) capital investments made by rubber gloves manufacturing industry to address the global demand for rubber gloves;

(d) growth in the other global and domestic end-user industries that uses rubber gloves in daily operations such as manufacturing and food industry; and

(e) growth in the hygiene awareness and changes in healthcare requirements in emerging markets.

In line with global vaccination efforts, there had been a slowdown in demand for rubber gloves in the latter half of 2021. In particular, Malaysia had achieved 78.9% of the population having at least 2 doses of COVID-19 vaccine as at end February 2022. The high vaccination rate in the country had led to a recovery in economic activities, including the manufacturing sectors. As a result, the Malaysian manufacturing sector grew by 9.5% in 2021. While there had been reduced demand for rubber gloves in the second half of the year, the robust demand in the first six months as well as higher average selling price resulted in the value of locally manufactured gloves reaching RM65.42 billion in 2021, up from RM44.22 billion in 2020. At the same time, the value of glove exports during the year also increased from RM35.92 billion in 2020 to RM54.81 billion in 2021.

Beyond the COVID-19 pandemic, demand for rubber gloves is expected to still remain strong. There has been an increasing demand for rubber gloves across various industries across the globe. However, in the event that there is a decline in the global and domestic demand for rubber gloves by end-users as well as reduction in prices of rubber gloves may lead to a decrease in the level of manufacturing activities and capital investment made (in terms of number of manufacturing lines and other cost related considerations) of rubber gloves manufacturing industry, which will eventually have an adverse impact on our financial performances. Any loss of these major customers and our inability to replace these customers with new customers or with additional purchase orders from existing or new customers in a timely manner could result in a loss of revenue and will have an adverse impact on our financial performance. In addition, there is no assurances that we will be successful in our future plans to widen our customer base and cater to more diversified end-customers from different industries to mitigate our dependency on the rubber gloves manufacturing industry. During FYE 2020, our Group recorded a substantial increase of 43.7% in its revenue levels and 99.9% increase in its overall PAT levels as compared to FYE 2019, mainly due to higher sales to the rubber glove manufacturing industry as a result of the COVID-19 pandemic outbreak. The demand for rubber glove remains strong during FYE 2021 and our Group recorded an increase of revenue by 8.5% mainly due to higher sales of industrial brushes to our customers within the rubber glove manufacturing industry. As the COVID-19 pandemic outbreak is expected to enter into an endemic stage, the growth in demand for rubber gloves may begin to taper down and as such, we may not be able to maintain the current growth levels of our current revenue and profitability levels in the future.

8.2.2 We face competition from other industry players and new market entrants

The manufacturing of industrial brushes industry in Malaysia is a niche industry comprising a handful of local industry players. Industry players compete amongst each other in terms of their quality, reputation, experiences, price as well as technical know-how. We face competition from both new and existing industry players. Some of these competitors may have stronger brand names, greater access to capital, longer operating histories, longer or more established relationships with their customers, and greater marketing and other resources than we do. Furthermore, some of these competitors may be able to adapt to changes in the industry more quickly than we can by adopting more aggressive pricing policies or by developing products that gain wider market acceptance. Technical capabilities, quality, pricing, proximity to customers and breadth of products and/or value-added services offered are the key areas of competition in our business activities.

For new market entrants, it is essential for these industry players to be able to demonstrate strong credentials in terms of technical expertise which includes the ability to provide customised industrial brushes, in order to enter and compete in the industrial brushes industry. The industrial brush industry in Malaysia can generally be divided into two groups of market players, namely local manufacturers and traders. Local manufacturers are companies that manufacture and distribute industrial brush to local and overseas end-users directly or through distributors. Local manufacturers generally produce their own house brand products but sometimes also serve as original equipment manufacturers for other brands. In 2021, it is estimated that there are less than 10 market players that are involved in the manufacturing of industrial brushes in Malaysia. Some of the local manufacturers for industrial brushes in Malaysia include C.E. Brush Manufacturing Sdn Bhd, Dragon Pathway Sdn Bhd, Greenheart Global Sdn Bhd, Mybrush Industries Sdn Bhd and Yew Lee Industrial Brush Sdn Bhd (which is not a related party to our Group).

Whilst we strive to remain competitive, there can be no assurance that any changes in the competitive environment would not have any material and adverse impact on our business and financial performance. Our ability to compete will depend on our ability to adapt quickly to developments in the markets in which our value-added services are performed. In particular, our success will depend on our capability to provide products and value-added services for our customers changing manufacturing requirements. As such, there can be no assurance that we are able to compete effectively which may adversely impact our financial performance.

8.2.3 We are dependent on foreign workers in our Manufacturing Facilities

Our manufacturing operations are dependent on the continued supply of foreign labour. As at the LPD, we have 32 foreign workers in Malaysia, representing 22.7% of our total employees. Our foreign workers are mainly from Nepal, Myanmar and Singapore, where all of them have valid working permits, which are renewed annually.

In addition, due to the COVID-19 pandemic outbreak, the closing of international borders has resulted in difficulties in recruiting new foreign workers. We may not be able to replace our foreign workers who have returned to their home country or hire new workers to expand our operations. Any shortage of workers may result in disruption of our operations and expansion plans. To-date, we have not faced any difficulties in replacing the foreign workers who have returned home to their home countries, as we are able to source for replacement workers (both local and foreigners) via the introduction by our employment agency.

The costs of foreign labour may continue to increase in the future as the Government continues to revise the relevant policies. In addition, any increases to the minimum wages policy for all domestic and foreign workers imposed by the Government would result in higher operating cost which would result in lower profitability and margin levels generated. There is also no assurance that we will not be affected by other future changes to the minimum wage policy in the country.

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

8.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES

8.3.1 No prior market for our Shares

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

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

8.3.2 Failure/delay in or termination/abortion of our Listing

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

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

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

(c) we are unable to meet the public shareholding spread requirement as determined by Bursa Securities, whereby at least 25.0% 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.

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

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

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

8.3.3 Volatility of our Share price and volume of our Shares

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.

8.4 OTHER RISKS

8.4.1 Continued control by our Promoters/substantial shareholders

Our Promoters will collectively hold approximately 70.0% of our enlarged share capital upon our Listing. Because of the size of their shareholdings, our Promoters will be able to control the business direction and management of our Group and as such there can be no assurance that the interests of our Promoters will be aligned with those of our other shareholders. The interests of our Promoters/substantial shareholders may differ from the interests of our other shareholders and they may be able to exercise significant influence over the vote of our Shares. Our Promoters/substantial shareholders could also have significant influence in determining the outcome of any corporate transaction or other matters submitted to our shareholders for approval. This includes the election of Directors, dividend policy, approval of business ventures and having voting control over our Group. As such, our Promoters will have significant influence on the outcome of any ordinary resolution (which requires a simple majority of 50% plus 1 voting share) to be tabled at general meeting, unless they are required to abstain from voting by law and/or as required by the relevant authorities.

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9. RELATED PARTY TRANSACTIONS

9.1 RELATED PARTY TRANSACTIONS

Save as disclosed below, we have not entered into any related party transactions with our Promoters, Directors, substantial shareholders, key senior management personnel and/or persons connected with them for the past 4 FYE 2018 to FYE 2021 and up to the LPD.

			Value of transactions (Expense)/Income									
			FYE 2018		FYE 2019		FYE 2020		FYE 2021		1 January 2022 up to LPD	
Transacting parties	**Interested persons**	**Nature of transaction**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
YLPM and Ang Lee Leong	Ang Lee Leong is our Managing Director, Promoter and substantial shareholder	Purchase of motor vehicle from Ang Lee Leong	-	-	-	-	(50)	N/A	-	-	-	-

Note:

N/A Not applicable

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

Our Directors are of the view that the above related party transactions were conducted on an arm's length basis and on competitive commercial terms not more favourable to the related parties and were not to the detriment of our minority shareholders. This is after taking into consideration the comparable second-hand market asking prices of the said motor vehicle model found on various online motor vehicle websites for comparison purpose.

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

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

9. RELATED PARTY TRANSACTIONS *(cont'd)*

(a) Recurrent related party transactions

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

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

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

(b) Other related party transactions

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

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

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

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

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

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

9.1.1 Other transactions

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

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

(b) Loans and guarantees

As part of the terms of the banking and leasing facilities extended to our Group, our Promoters have provided personal guarantees and Ang Lee Seng has assigned mortgage reducing term takaful policy ("**MRTT**") purchased by him to our financiers. The respective financiers had agreed to discharge the:

(i) personal guarantees subject to our Company substituting the personal guarantees with a corporate guarantee from our Company and our successful Listing; and
(ii) the assignment of MRTT subject to the completion of the Acquisitions[(1)].

Note:

(1) Our Group has notified the said financial institution to relinquish the guarantee and the assignment of MRTT upon the completion of the Acquisitions. The said financial institution is in the process of discharging the personal guarantee and the MRTT.

As at the LPD, save for the discharge of the assignment of the MRTT which is still in the process of being discharged, the discharge of the personal guarantees for our other banking and leasing facilities are still pending and shall be substituted with a corporate guarantee from our Company upon the completion of our Listing.

(c) Amount due to/from related party/Directors

(i) Amount due from related party

As at the LPD, there is no outstanding amount due from related parties.

(ii) Amount due to related parties

As at the LPD, there is no outstanding amount due to related parties.

(iii) Amount due to/from Directors

	FYE 2018	FYE 2019	FYE 2020	FYE 2021	As at LPD
	RM'000	RM'000	RM'000	RM'000	RM'000
Amount due to Directors					
• Ang Lee Leong	(1)1,600	(2)1,600	(3)2,400	-	-
• Chee Wai Ying	(1)200	(2)200	(3)300	-	-
• Ang Lee Seng	(1)200	(2)200	(3)300	-	-
Total	**2,000**	**2,000**	**3,000**	**-**	**-**

9. RELATED PARTY TRANSACTIONS *(cont'd)*

Notes:

(1) Being dividends declared by our Group in respect of FYE 2018 but not paid as at 31 December 2018. The amount due to Directors was paid in FYE 2019.

(2) Being dividends declared by our Group in respect of FYE 2019 but not paid as at 31 December 2019. The amount due to Directors was paid in FYE 2020.

(3) Being dividends declared by our Group in respect of FYE 2020 but not paid as at 31 December 2020. The amount due to Directors was paid in FYE 2021.

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

There were no financial assistance provided by us for the benefit of any related party for the financial years under review and up to the LPD.

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10. CONFLICT OF INTERESTS

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

None of our Directors, Promoters or substantial shareholders has any interest, direct or indirect, in other businesses or corporations carrying on a similar or related trade or are the customers and/or suppliers of our Group.

Our Directors will declare to our Nomination Committee and our Board of their interests in other companies at the onset and as and when there are changes in their respective interests in companies outside our Group. Our Nomination Committee will then evaluate if such Director's involvement gives rise to a potential conflict of interest situation with our Group's business activities. If our Directors are involved in similar business as our Group or business of our customers and our suppliers, our Nomination Committee shall inform our Audit and Risk Management Committee of such involvement. When a determination has been made that there is a conflict of interest of a Director, our Nomination Committee will:

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

(b) 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.

Where there are related party transactions between our Group with our Directors (or persons connected with them) or companies in which our Directors (or person connected with them) have an interest, our Audit and Risk Management 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 9.1 for the procedures to be taken to ensure that such related party transactions (if any) are undertaken on arm's length basis.

10.2 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) Eco Asia Capital Advisory 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 Financial Adviser for our Listing. Its scope of work as Financial Adviser includes the following:

    (i) to conceptualise and advise on our Group's restructuring, equity and corporate structure in preparation for our Listing;
    (ii) to assist our Group in compiling information and documents for our Listing;
    (iii) to assist in reviewing the draft documents prepared by the relevant advisers in relation to our Listing; and
    (iv) to assess and advise on any other issues relevant to our Listing.

10. CONFLICT OF INTERESTS *(cont'd)*

Certain of our Financial Adviser's scope of work such as conceptualisation and advisory on our Group's listing structure are performed jointly with our Principal Adviser.

(c) Teh & Lee has given its written confirmation that, as at the date of this Prospectus, there is no existing or potential conflict of interest in its capacity as Solicitors for our Listing.

(d) Ecovis 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.

(e) Protégé 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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11. FINANCIAL INFORMATION

11.1 HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated on 10 November 2020 to facilitate our Listing and we completed the Acquisitions on 18 January 2022. The historical financial information of our Group for FYE 2018 to FYE 2021 is therefore presented based on the historical combined audited financial statements of YLPH and YLPM.

The audited combined financial statements for FYE 2018 to FYE 2021 were prepared in accordance with MFRS and IFRS. The audited financial statements of PT Yew Lee Indonesia and Yew Lee Thailand were prepared in accordance with the accounting standards adopted by their respective countries. Where necessary, adjustments were made to the audited financial statements of PT Yew Lee Indonesia and Yew Lee Thailand when preparing the combined financial statements of our Group in accordance with MFRS and IFRS. Our Group adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, MFRS 16 is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application of 1 January 2019, with the audited combined financial statements for FYE 2018 continuing to reflect the accounting policies under MFRS 117 Leases. The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results and cash flows position.

11.1.1 Combined Statements of Profit or Loss and Other Comprehensive Income

The following table sets out a summary of our combined statements of profit or loss and other comprehensive income for FYE 2018 to FYE 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 11.2 and 12, respectively.

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Revenue	27,813	29,208	41,974	45,525
Cost of sales	(16,765)	(18,128)	(23,589)	(26,909)
GP	**11,048**	**11,080**	**18,385**	**18,616**
Other income	443	468	650	808
Administrative expenses	(4,245)	(4,348)	(5,108)	(6,390)
Selling and distribution expenses	(226)	(130)	(272)	(336)
Other expenses	(119)	(63)	(89)	(62)
Profit from operations	**6,901**	**7,007**	**13,566**	**12,636**
Finance costs	(323)	(263)	(231)	(277)
Share of profit of an associate	-	-	206	224
PBT	**6,578**	**6,744**	**13,541**	**12,583**
Tax expenses	(1,496)	(1,549)	(3,158)	(2,470)
PAT	**5,082**	**5,195**	**10,383**	**10,113**
Other comprehensive income/(loss):				
Actuarial (loss)/income on provisions of employee benefits obligation	-	-	(2)	2
Foreign currency translation of foreign operations	-	(39)	(22)	5
Reclassification adjustments of foreign operations	-	-	18	-
Share of other comprehensive loss of an associate	-	-	[(1)]-	(24)
Total comprehensive income	**5,082**	**5,156**	**10,377**	**10,096**

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
PAT attributable to:				
- Owners of our Company	5,082	5,195	10,383	10,116
- Non-controlling interest	-	-	-	(3)
	5,082	**5,195**	**10,383**	**10,113**
Total comprehensive income attributable to:				
- Owners of our Company	5,082	5,156	10,377	10,099
- Non-controlling interest	-	-	-	(3)
	5,082	**5,156**	**10,377**	**10,096**
EBIT(2)	6,839	6,939	13,671	12,676
EBITDA(2)	8,050	8,265	15,009	14,292
GP margin (%)(3)	39.7	37.9	43.8	40.9
PBT margin (%)(4)	23.7	23.1	32.3	27.6
PAT margin (%)(4)	18.3	17.8	24.7	22.2
Basic EPS (sen)(5)	1.27	1.30	2.60	2.53
Diluted EPS (sen)(6)	0.95	0.98	1.95	1.90

Notes:

(1) Represents less than RM1,000.

(2) EBIT and EBITDA are calculated as follows:

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2020**
	RM'000	**RM'000**	**RM'000**	**RM'000**
PAT	5,082	5,195	10,383	10,113
Less: Interest income	(62)	(68)	(101)	(184)
Add:				
Finance costs	323	263	231	277
Tax expenses	1,496	1,549	3,158	2,470
EBIT	**6,839**	**6,939**	**13,671**	**12,676**
Add:				
Depreciation of property, plant and equipment	1,211	821	787	1,029
Amortisation of right-of-use assets	-	505	551	587
EBITDA	**8,050**	**8,265**	**15,009**	**14,292**

(3) Calculated based on GP over revenue.

(4) Calculated based on PBT/PAT over revenue.

(5) Calculated based on PAT attributable to owners of our Company divided by the share capital of 399,326,700 Shares in issue upon Acquisitions but before our IPO.

(6) Calculated based on PAT attributable to owners of our Company divided by the enlarged share capital of 532,435,600 Shares after our IPO.

11.1.2 Combined Statements of Financial Position

The following table sets out the combined statements of financial position of our Group as at 31 December 2018, 2019, 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 Section 11.2 and 12, respectively.

	Audited			
	As at 31 December			
	2018	**2019**	**2020**	**2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current assets				
Property, plant and equipment	12,650	4,371	5,500	10,110
Right-of-use assets	-	8,547	9,670	8,524
Investment in an associate company	-	-	221	446
Total non-current assets	**12,650**	**12,918**	**15,391**	**19,080**
Current assets				
Inventories	4,089	5,027	4,706	6,873
Trade receivables	6,992	6,961	8,932	9,160
Other receivables, deposits and prepayments	56	457	472	571
Tax recoverable	-	-	-	269
Fixed deposits with licensed banks	2,000	2,000	5,000	11,076
Cash and bank balances	9,802	10,757	15,012	8,737
Total current assets	**22,939**	**25,202**	**34,122**	**36,686**
Total assets	**35,589**	**38,120**	**49,513**	**55,766**
Equity				
Share capital	-	-	-	(1)-
Invested equity	350	350	350	350
Retained earnings	22,578	25,773	31,158	41,276
Foreign currency translation reserves	-	(39)	(42)	(61)
	22,928	**26,084**	**31,466**	**41,565**
Non-controlling interest	-	-	3	(1)-
Total equity	**22,928**	**26,084**	**31,469**	**41,565**
Non-current liabilities				
Bank borrowings	4,680	4,578	4,379	7,936
Lease liabilities	349	452	1,002	485
Deferred tax liabilities	613	580	704	882
Provisions for employee benefits obligation	-	18	19	-
Total non-current liabilities	**5,642**	**5,628**	**6,104**	**9,303**
Current liabilities				
Trade payables	3,255	3,045	5,238	2,733
Other payables and accruals	806	534	2,094	1,505
Bank borrowings	78	329	158	358
Lease liabilities	459	268	511	302
Tax payable	421	232	939	-
Dividend payable	2,000	2,000	3,000	-
Total current liabilities	**7,019**	**6,408**	**11,940**	**4,898**
Total liabilities	**12,661**	**12,036**	**18,044**	**14,201**
Total equity and liabilities	**35,589**	**38,120**	**49,513**	**55,766**

Note:

(1) Represents less than RM1,000.

11.1.3 Combined Statements of Cash Flows

The following table sets out the combined statements of cash flows of our Group for FYE 2018 to FYE 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 Section 11.2 and 12, respectively.

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Cash flow from operating activities				
PBT	6,578	6,744	13,541	12,583
Adjustments for:				
Amortisation of right-of-use assets	-	505	551	587
Bad debts written off	-	-	2	-
Depreciation of property, plant and equipment	1,211	821	787	1,029
Finance costs	323	263	231	277
Gain on disposal of property, plant and equipment, net	(46)	(80)	(74)	(11)
Gain on disposal of a subsidiary	-	-	(245)	-
Gain on termination of a lease contract	-	-	-	(2)
Impairment on trade receivables	107	-	19	-
Interest income	(62)	(68)	(101)	(184)
Increase/(decrease) in provision for employee benefits obligation	-	18	2	(16)
Inventories written down/(back), net	-	119	265	(90)
Property, plant and equipment written off	12	63	1	19
Reversal of impairment on trade receivables	-	-	-	(6)
Share of result of an associate	-	-	(206)	(224)
Unrealised (gain)/ loss on foreign exchange	(22)	(1)	(16)	32
Operating profit before working capital changes	**8,101**	**8,384**	**14,757**	**13,994**
Changes in working capital:				
(Increase)/ decrease in inventories	(860)	(1,057)	92	(2,103)
Increase in trade and other receivables	(575)	(373)	(2,316)	(262)
Increase/(decrease) in trade and other payables	1,947	(483)	4,347	(3,108)
Provisions for employee benefits obligation	-	-	8	(2)
Cash generated from operations	**8,613**	**6,471**	**16,888**	**8,519**
Tax paid, net of tax refunded	(1,045)	(1,772)	(2,328)	(3,496)
Net cash generated from operating activities	**7,568**	**4,699**	**14,560**	**5,023**
Cash flow from investing activities				
Disposal of stake to non-controlling interest	-	-	8	-
Interest received	62	68	101	108
Proceed from disposal of a subsidiary, net of cash and cash equivalents disposed of	-	-	105	-

11. FINANCIAL INFORMATION *(cont'd)*

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Proceeds from disposal of property, plant and equipment	46	81	142	120
Purchase of property, plant and equipment	(305)	(1,115)	(2,168)	(4,988)
Purchase of right-of-use assets	-	(83)	(553)	(164)
Net cash used in investing activities	**(197)**	**(1,049)**	**(2,365)**	**(4,924)**
Cash flow from financing activities				
Dividends paid	(1,500)	(2,000)	(4,000)	(3,000)
Drawdown of term loans	-	-	-	4,011
Finance costs paid	(323)	(263)	(232)	(277)
Issuance of shares	-	-	-	(1)-
Net movement on banker's acceptance	-	235	(235)	-
Repayment of term loans	(1,102)	(86)	(135)	(255)
Repayment of lease liabilities	(619)	(549)	(327)	(777)
Net cash used in financing activities	**(3,544)**	**(2,663)**	**(4,929)**	**(298)**
Net increase/(decrease) in cash and cash equivalents	3,827	987	7,266	(199)
Effect of foreign currency translation	-	(32)	(11)	(1)-
Cash and cash equivalents at the beginning of the financial year	7,975	11,802	12,757	20,012
Cash and cash equivalents at end of the financial year	**11,802**	**12,757**	**20,012**	**19,813**

Note:

(1) Represents less than RM1,000.

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

The following discussion and segmental analysis of our combined financial statements for FYE 2018 to FYE 2021 should be read with the Accountants' Report included in Section 12.

11.2.1 Overview of our operations

(a) Principal activities

Our Group is principally involved in the manufacturing of industrial brushes as well as trading of industrial hardware and machinery parts. Please refer to Section 6.7 for our Group's detailed business overview.

(b) Revenue recognition

Revenue from sales of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Revenue from our manufacturing segment is derived from the manufacturing of industrial brushes and household brushes. Revenue from our trading segment is derived from the trading of industrial hardware and machinery parts to our industrial manufacturing customers, walk-in customers as well as trading house distributors.

(c) Cost of sales

Manufacturing segment

Our cost of sales for our manufacturing segment mainly comprises of the following:

(i) Raw materials consumed

Our Group's raw materials mainly consist of monofilaments materials, plastic materials (such as polypropylene resin and plastic sheet) as well as other raw materials (such as steel shafts and pipes, plastic pipes and plastic rods).

(ii) Direct labour

Our direct labour costs mainly include salaries/wages and statutory contributions paid to our production workers that we directly employ.

(iii) Factory overheads

Our factory overhead costs mainly include depreciation for property, plant and equipment, amortisation of right-of-use assets, upkeep expenses and utilities charges.

Trading segment

Our cost of sales for trading segment comprises purchases of industrial hardware and machinery parts from resellers, distributors and hardware dealers.

(d) Other income

Other income includes gain on foreign exchange, interest income, gain on disposal of subsidiary, gain on disposal of property, plant and equipment, gain on termination of lease contract, reversal of impairment on trade receivables, decrease in provision for employee benefits obligation as well as insurance compensations.

(e) Administrative expenses

Administrative expenses mainly comprise overheads and administrative expenses incurred to maintain our operations such as staff costs, directors' remuneration, depreciation of property, plant and equipment, amortisation of right-of-use assets, travelling and accommodation expenses, professional fees, upkeep expenses and utility charges.

(f) Selling and distribution expenses

Selling and distribution expenses mainly consist of sales commissions as well as freight and transportation charges incurred in relation to the transportation of our products to our overseas customers.

(g) Other expenses

Other expenses relate to expenses incurred which are not directly related to our operations such as impairment loss of trade receivables, property, plant and equipment written off, loss on disposal of property, plant and equipment, bad debts written off as well as loss on foreign exchange.

(h) Finance costs

Finance costs mainly comprise interest expenses on our term loans, lease liabilities and bankers' acceptances.

(i) Recent developments

Save for the Acquisitions and the COVID-19 pandemic outbreak (details as set out in Section 6.23), there were no other significant events subsequent to our Group's audited combined financial statements for FYE 2021.

(j) Exceptional or extraordinary items and audit qualifications

There were no exceptional or extraordinary items during FYE 2018 to FYE 2021. In addition, our audited combined financial statements for the financial years under review were not subjected to any audit qualifications by our auditors.

(k) Significant factors affecting our business

Section 8 details a number of risk factors relating to our business and industry in which we operate in. Some of these risk factors have an impact on our Group's revenue and financial performance. The main factors which affect revenue and profits include but are not limited to the following:

(i) Dependency on the rubber gloves manufacturing industry

For the past 4 FYEs, our major customers contributed between 50.4% and 60.5% of our revenue. Our major customers for the financial years under review include Top Glove, Hartalega Group, Latexx Manufacturing Sdn Bhd, Careplus Group, Riverstone Holdings Limited, VRG Khai Hoan Joint Stock Company and Precious Mountain Enterprise Corporation Taiwan Branch, which are all involved in the rubber gloves manufacturing industry. The ongoing COVID-19 pandemic has resulted in an increase in global demand for rubber gloves, which has resulted in the increase in demand for our industrial brushes, industrial hardware and machinery parts. During FYE 2020, our Group recorded a substantial increase of 43.7% in its revenue levels and 99.9% increase in its overall PAT levels as compared to FYE 2019, mainly due to higher sales to the rubber glove manufacturing industry as a result of the COVID-19 pandemic outbreak. As the COVID-19 pandemic outbreak is expected to enter into an endemic stage from 1 April 2022 onwards, the growth in demand for rubber gloves may begin to taper down and as such, we may not be able to maintain the current growth levels of our current revenue and profitability levels in the future.

Thus, our financial performance is likely to move in tandem with the performance of the rubber gloves manufacturing industry, as such our financial performance and business activities are dependent on the performance of our major customers in the rubber gloves manufacturing industry.

A decline in the global and domestic demand for rubber gloves by end-users as well as reduction in prices of rubber gloves may lead to a decrease in the level of manufacturing activities, which will eventually have an adverse impact on our financial performances. In addition, any loss of these major customers and our inability to replace these customers with new customers or with additional orders from existing customers in a timely manner could also result in a loss of revenue and will have an adverse impact on our financial performance.

(ii) Disruptions or unplanned shutdowns to our Manufacturing Facilities

Our Group's business is dependent on our Manufacturing Facilities operating smoothly and efficiently. Any disruption to or unplanned shutdowns of our facilities such as control measures implemented to contain the spread of the COVID-19 pandemic outbreak, fire, power failure, floods or interruptions in water supply, breakdowns, failures or sub-standard performance of our critical machineries, or accidents may materially and adversely affect our delivery of services.

(iii) Dependency on availability and price fluctuation of raw materials

Our operations are dependent on the consistent supply of raw materials from the local and oversea suppliers. The fluctuations in the market prices of raw material due to changes in global supply and demand conditions may cause our Group's financial performance to be adversely affected. Any rise in our raw material prices will result in lower operating margin to our Group if we are unable to reflect the increased cost in the selling price of our finished products.

(iv) Competition risk

Our Group faces competition from both new and existing industry players. Whilst we strive to remain competitive, there can be no assurance that any changes in the competitive environment would not have any material and adverse impact on our business and financial performance.

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11.2.2 Revenue

(a) Analysis of revenue by business segments

	Audited											
	FYE 2018			**FYE 2019**			**FYE 2020**			**FYE 2021**		
	[1]Volume	**Amount**		**[1]Volume**	**Amount**		**[1]Volume**	**Amount**		**[1]Volume**	**Amount**	
	Unit in '000	**RM'000**	**%**	**Unit in '000**	**RM'000**	**%**	**Unit in '000**	**RM'000**	**%**	**Unit in '000**	**RM'000**	**%**
Manufacturing segment												
- Industrial brushes	1,376	17,415	62.6	1,367	18,148	62.1	1,980	27,100	64.6	2,327	31,569	69.4
- Household brushes	144	508	1.8	108	412	1.4	94	378	0.9	103	425	0.9
	1,520	**17,923**	**64.4**	**1,475**	**18,560**	**63.5**	**2,074**	**27,478**	**65.5**	**2,430**	**31,994**	**70.3**
Trading segment	937	9,890	35.6	958	10,648	36.5	1,314	14,496	34.5	1,048	13,531	29.7
Total	**2,457**	**27,813**	**100.0**	**2,433**	**29,208**	**100.0**	**3,388**	**41,974**	**100.0**	**3,478**	**45,525**	**100.0**

Note:

(1) The number of units sold during the financial years under review includes opening stock brought forward from the previous financial year and the actual number pieces of industrial brushes manufactured during the financial year.

Our revenue was mainly derived from the manufacturing segment which comprise of manufacturing of industrial brushes and household brushes, contributing between 63.5% and 70.3% of our total revenue during the financial years under review. Revenue contribution from the trading segment remained consistent between 29.7% and 36.5% during the financial years under review, which is highly dependent on our customer's manufacturing requirements, wear and tear as well as repeat orders from our customers.

11. FINANCIAL INFORMATION *(cont'd)*

(b) Analysis of revenue by geographical locations

	Audited											
	FYE 2018			FYE 2019			FYE 2020			FYE 2021		
	Volume	Amount		Volume	Amount		Volume	Amount		Volume	Amount	
	Unit in '000	RM'000	%	Unit in '000	RM'000	%	Unit in '000	RM'000	%	Unit in '000	RM'000	%
Manufacturing segment												
Malaysia	1,084	12,881	46.3	1,138	14,416	49.3	1,454	19,664	46.9	1,487	21,450	47.1
Thailand	174	1,769	6.4	182	1,967	6.7	250	2,833	6.7	350	3,205	7.0
Vietnam	197	2,658	9.6	70	1,387	4.7	136	2,610	6.2	127	2,632	5.8
Indonesia	28	203	0.7	47	310	1.1	106	833	2.0	162	1,507	3.3
Taiwan	-	-	-	-	-	-	90	1,007	2.4	266	2,614	5.8
Others[1]	37	412	1.4	38	480	1.7	38	531	1.3	38	586	1.3
	1,520	**17,923**	**64.4**	**1,475**	**18,560**	**63.5**	**2,074**	**27,478**	**65.5**	**2,430**	**31,994**	**70.3**
Trading segment												
Malaysia	937	9,890	35.6	958	10,648	36.5	1,314	14,496	34.5	1,048	13,531	29.7
Total	**2,457**	**27,813**	**100.0**	**2,433**	**29,208**	**100.0**	**3,388**	**41,974**	**100.0**	**3,478**	**45,525**	**100.0**

Note:

(1) Other countries include India, Mexico, Middle East, Singapore and Sri Lanka.

Revenue from the Malaysia market contributed approximately 76.8% to 85.8% of our total revenue for the financial years under review, while our revenue from the overseas market accounted for approximately 14.2% to 23.2% of our total revenue for the financial years under review. The rubber gloves manufacturing industry constitutes 77.4% to 88.0% of our total revenue, which are recurring in nature.

Our sales are mainly derived locally and are denominated in RM, while our sales derived by the overseas market are mainly denominated in USD, THB and IDR. Our revenue from each geographical location changes from year to year due to the different level of demand from our customers and purchase orders received from our existing and new customers during the financial years under review.

(c) Commentaries on revenue

Comparison between FYE 2018 and FYE 2019

Our Group's revenue increased by approximately RM1.40 million or 5.0% from RM27.81 million in FYE 2018 to RM29.21 million in FYE 2019. Approximately 63.5% of our Group's revenue in FYE 2019 was derived from manufacturing segment while the remaining 36.5% was derived from the trading segment. The increase in our overall revenue during FYE 2019 was mainly contributed by higher revenue generated by both our manufacturing and trading segments which increased by approximately 3.6% and 7.7%, respectively mainly due to higher sales to our major customers in the rubber gloves manufacturing industry (which includes Top Glove, Hartalega Group and Careplus Group).

During FYE 2019, approximately 85.8% of our total revenue was mainly derived from Malaysia. Revenue generated from our customers in Vietnam decreased by approximately RM1.27 million or 47.7% from RM2.66 million during FYE 2018 to RM1.39 million during FYE 2019. This was mainly due the decrease in orders of industrial brushes by a major customer in Vietnam, namely VRG Khai Hoan Joint Stock Company.

Manufacturing segment

Revenue generated from the manufacturing of industrial brushes business segment increased by approximately RM0.73 million or 4.2% from RM17.42 million in FYE 2018 to RM18.15 million in FYE 2019, mainly due to the following reasons:

(i) higher volume of industrial brushes (such as circular brushes and disc brushes) sold to our existing customers mainly involved in the rubber gloves manufacturing industry. Our total unit of industrial brushes sold increased by approximately 0.03 million units or 2.6% from 1.17 million units during FYE 2018 to 1.20 million units during FYE 2019 as we secured more orders as a result of increased marketing activities to our customers involved in the rubber gloves manufacturing industry; and

(ii) higher average selling price of industrial brushes sold to our customers involved in the rubber gloves manufacturing industry, where the average selling price increased by RM0.36 per unit or 2.8% from RM12.67 per unit in FYE 2018 to RM13.03 per unit in FYE 2019 mainly due to different brush specifications and product mixed sold, which was mainly due to the higher average selling price of certain range of industrial brushes (namely disc brush) by approximately 2.1%. The higher average selling price for these disc brushes was mainly attributable to higher usage of monofilament materials and specific brush specifications which commanded higher selling price. Our average selling price is generally dependent on type of industrial brushes sold as well as the specification of the industrial brushes such as sizes, monofilament materials, density and trim length, core shaft diameters and lengths.

Revenue from the manufacturing of household brushes segment decreased by approximately RM0.10 million or 19.6% from RM0.51 million in FYE 2018 to RM0.41 million in FYE 2019 mainly due to lower volume of household brushes sold to our retail customers (which mainly comprise of hardware shops as well as walk-in customers at our Ipoh Sales Office and Klang Sales Office). Our total unit of household brushes sold decreased by approximately 0.03 million units or 21.4% from 0.14 million units during FYE 2018 to 0.11 million units during FYE 2019.

Trading segment

Revenue generated from the trading segment increased by approximately RM0.76 million or 7.7% from RM9.89 million in FYE 2018 to RM10.65 million in FYE 2019, which was mainly due to higher volume of industrial hardware and machinery parts sold. Our total unit of industrial hardware and machinery parts sold increased by 2.1% from approximately 0.94 million units in

FYE 2018 to 0.96 million units in FYE 2019 mainly due to higher purchase orders received from our rubber gloves manufacturing customers.

Comparison between FYE 2019 and FYE 2020

Our Group's overall revenue increased by approximately RM12.76 million or 43.7% from RM29.21 million in FYE 2019 to RM41.97 million in FYE 2020. Approximately 65.5% of our Group's revenue during FYE 2020 was mainly derived from the manufacturing segment, while the remaining revenue contribution of 34.5% was derived from the trading segment. The increase in our overall revenue levels during FYE 2020 was mainly contributed by higher revenue generated by both our manufacturing and trading segments which increased by approximately 48.0% and 36.1%, respectively mainly due to higher sales of industrial brushes to our customers in the rubber gloves manufacturing industry, such as Top Glove, Hartalega Group, Precious Mountain Enterprise Corporation Taiwan Branch and VRG Khai Hoan Joint Stock Company.

During FYE 2020, approximately 81.4% of our Group's total revenue was mainly derived from our customers in Malaysia while the remaining 18.6% was derived from our overseas customers primarily located in Thailand, Vietnam, Indonesia and Taiwan, representing approximately 6.7%, 6.2%, 2.0% and 2.4% respectively. Our customers are mainly involved in the rubber gloves manufacturing industry and had increased their orders of industrial brushes from us to support the increase in their rubber gloves manufacturing activities due to the global COVID-19 pandemic outbreak.

Manufacturing segment

Approximately 98.6% of our revenue from the manufacturing segment is mainly derived from the manufacturing of industrial brushes while the remaining 1.4% of our revenue is derived from the manufacturing of household brushes. Revenue generated from the manufacturing of industrial brushes business segment increased significantly by approximately RM8.95 million or 49.3% from RM18.15 million during FYE 2019 to RM27.10 million during FYE 2020 mainly due to the following reasons:

(i) higher volume of industrial brushes sold to our rubber gloves manufacturing customers as they increased their production volumes and set up new manufacturing facilities in order to fulfill the surge in demand of rubber gloves arising from the global COVID-19 pandemic outbreak. Total units of industrial brushes sold increased by 0.68 million units or 56.7% from 1.20 million units in FYE 2019 to 1.88 million units in FYE 2020 as our industrial brushes are consumables and have to be replaced more frequently when our customers increase their production volume and activities;

(ii) we have also secured a new customer involved in the rubber glove manufacturing industry from Taiwan which contributed RM1.01 million or 2.4% to our Group's revenue during FYE 2020;

(iii) our Group have also set up 2 additional manufacturing lines during FYE 2020, which increased our Group's overall production capacity by 39.9% in FYE 2020 in order to meet higher demand of our range of industrial brushes; and

(iv) higher average selling price of industrial brushes sold to our rubber gloves manufacturing customers, which increased by RM0.37 per unit or 2.8% from RM13.03 per unit in FYE 2019 to RM13.40 per unit in FYE 2020 mainly due to different brush specifications and product mix sold, which was mainly due to the higher average selling price of certain range of industrial brushes (namely circular brushes and disc brushes) by approximately 4.2%. The higher average selling price for these circular brushes and disc brushes was mainly attributable to higher usage of monofilament materials and specific brush specifications which commanded higher selling price. Our average selling price is generally dependent on type of industrial brushes sold as well as the specification of the industrial brushes such as sizes, monofilament materials, density and trim length, core shaft diameters and lengths.

Revenue from the sales of household brushes further decreased by approximately RM0.03 million or 7.3% from RM0.41 million in FYE 2019 to RM0.38 million in FYE 2020 mainly due to lesser quantity of household brushes sold. Our total units of household brushes decreased by approximately 0.02 million units or 18.2% from 0.11 million units in FYE 2019 to 0.09 million units in FYE 2020 as we have focused our manufacturing capacity to fulfill increase in demand of our range of industrial brushes.

Trading segment

Revenue from the trading segment increased by approximately RM3.85 million or 36.2% from RM10.65 million in FYE 2019 to RM14.50 million in FYE 2020 mainly due to higher volume of industrial hardware and machinery parts sold. Our industrial hardware and machinery parts are also consumables and have to be replaced regularly depending on machinery usage. The total units of industrial hardware and machinery parts sold increased by 36.5% from approximately 0.96 million units in FYE 2019 to 1.31 million units in FYE 2020 mainly due to higher orders received from our rubber gloves manufacturing customers.

Comparison between FYE 2020 and FYE 2021

Our Group's overall revenue increased by approximately RM3.56 million or 8.5% from RM41.97 million in FYE 2020 to RM45.53 million in FYE 2021. Approximately 70.3% of our Group's revenue during FYE 2021 was mainly derived from the manufacturing segment, while the remaining revenue contribution of 29.7% was derived from the trading segment. The increase in our overall revenue levels during FYE 2021 was mainly contributed by higher revenue generated by our manufacturing segment which increased by approximately 16.5% mainly due to higher sales of industrial brushes to our major customers in the rubber gloves manufacturing industry, such as Precious Mountain Enterprise Corporation Taiwan Branch, Latexx Manufacturing Sdn Bhd and Careplus Group.

During FYE 2021, approximately 76.8% of our Group's total revenue was mainly derived from our customers in Malaysia while the remaining 23.2% was derived from our overseas customers primarily located in Thailand, Vietnam, Indonesia and Taiwan, representing approximately 7.0%, 5.8%, 3.3% and 5.8%, respectively.

Manufacturing segment

Approximately 98.7% of our revenue from the manufacturing segment is mainly derived from the manufacturing of industrial brushes while the remaining 1.3% of our revenue is derived from the manufacturing of household brushes. Revenue generated from the manufacturing of industrial brushes business segment increased by approximately RM4.47 million or 16.5% from RM27.10 million during FYE 2020 to RM31.57 million during FYE 2021 mainly due to the following reasons:

(i) higher volume of industrial brushes sold to our rubber gloves manufacturing customers as the overall demand for rubber glove remains high, resulting in continued demand for our range of industrial brushes for their manufacturing activities. In addition, we also received higher orders from a customer from Taiwan, namely Precious Mountain Enterprise Corporation Taiwan Branch, which was secured during the 4th quarter of FYE 2020 which resulted our revenue from Taiwan to increase by RM1.60 million or 158.4% from RM1.01 million in FYE 2020 to RM2.61 million in FYE 2021.

Overall, the total units of industrial brushes sold increased by 0.23 million units or 12.2% from 1.88 million units in FYE 2020 to 2.11 million units in FYE 2021 as our industrial brushes are consumables and have to be replaced more frequently when our customers increase their production volume and activities; and

(ii) higher average selling price of industrial brushes sold to our rubber gloves manufacturing customers, which increased by RM0.37 per unit or 2.8% from RM13.40 per unit in FYE 2020 to RM13.77 per unit in FYE 2021 mainly due to different brush specifications and product mix sold, which was mainly due to the higher average selling price of certain range of industrial brushes (namely disc brushes and spiral brushes) by approximately 4.5%. Our average selling price is generally dependent on type of industrial brushes sold as well as the specification of the industrial brushes such as sizes, monofilament materials, density and trim length, core shaft diameters and lengths. The higher average selling price for these disc brushes and spiral brushes during FYE 2021 was mainly due to higher orders double disc brush as well as spiral brushes with metal core/ shaft which generally has a higher selling price as compared to other types of disc and spiral brushes.

Revenue from the sales of household brushes increased by approximately RM0.05 million or 13.2% from RM0.38 million in FYE 2020 to RM0.43 million in FYE 2021 mainly due to higher quantity of household brushes sold. Our total units of household brushes increased by approximately 0.01 million units or 11.1% from 0.09 million units in FYE 2020 to 0.10 million units in FYE 2021. The volume of household brushes manufactured remained fairly consistent as we continued to focus our manufacturing capacity to manufacture industrial brushes.

Trading segment

Revenue from the trading segment decreased marginally by approximately RM0.97 million or 6.7% from RM14.50 million in FYE 2020 to RM13.53 million in FYE 2021 mainly due to lower volume of industrial hardware and machinery parts sold. Our industrial hardware and machinery parts are also consumables and have to be replaced regularly depending on machinery usage. The total units of industrial hardware and machinery parts sold decreased by 19.8% from approximately 1.31 million units in FYE 2020 to 1.05 million units in FYE 2021 mainly due to lower orders received from our rubber gloves manufacturing customers.

11.2.3 Cost of sales, GP and GP margin

(a) Analysis of cost of sales by business segments

	Audited							
	FYE 2018		**FYE 2019**		**FYE 2020**		**FYE 2021**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Manufacturing segment	9,095	54.2	10,310	56.9	13,029	55.2	16,600	61.7
Trading segment	7,670	45.8	7,818	43.1	10,560	44.8	10,309	38.3
Total	**16,765**	**100.0**	**18,128**	**100.0**	**23,589**	**100.0**	**26,909**	**100.0**

(b) Analysis of cost of sales by components

	Audited							
	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Raw materials consumed								
Manufacturing segment:								
Monofilament materials	5,404	32.2	5,972	32.9	8,125	34.4	10,553	39.2
Plastic materials	533	3.2	606	3.3	727	3.1	1,016	3.8
Others(1)	431	2.6	423	2.3	569	2.4	965	3.6
Subtotal	**6,368**	**38.0**	**7,001**	**38.5**	**9,421**	**39.9**	**12,534**	**46.6**
Trading segment(2)	7,670	45.7	7,818	43.1	10,560	44.8	10,309	38.3
Total cost of materials	**14,038**	**83.7**	**14,819**	**81.6**	**19,981**	**84.7**	**22,843**	**84.9**
Other direct costs								
Direct labour	1,368	8.2	1,779	9.8	1,916	8.1	2,104	7.8
Depreciation of property, plant and equipment	795	4.7	618	3.4	567	2.4	813	3.0
Amortisation of right-of-use assets	-	-	209	1.2	251	1.1	215	0.8
Upkeep expenses	144	0.9	169	0.9	293	1.2	365	1.4
Utilities charges	200	1.2	188	1.1	188	0.8	113	0.4
Others(3)	220	1.3	346	2.0	393	1.7	456	1.7
Total	**16,765**	**100.0**	**18,128**	**100.0**	**23,589**	**100.0**	**26,909**	**100.0**

Notes:

(1) This mainly includes packing materials, wires, metal strip, broom accessories and stickers.
(2) This mainly comprises of industrial hardware and machinery parts purchased from our resellers, distributors and hardware dealers.
(3) Our other cost of sales mainly consists of transportation charges, custom duties, insurance and subcontract cost for fabrication activities, each representing not more than 1.0%.

The main components of our cost of sales are cost of raw materials and supplies consumed as well as industrial hardware and machinery parts sold, which accounted for 81.6% to 84.9% of our total cost of sales for FYE 2018 to FYE 2021.

(c) Commentaries on cost of sales

Comparison between FYE 2018 and FYE 2019

Our Group's total cost of sales increased by approximately RM1.36 million or 8.1% from RM16.77 million during FYE 2018 to RM18.13 million during FYE 2019. The increase was mainly due to the following reasons:

(i) increase in manufacturing raw materials consumed by approximately RM0.63 million or 9.9% in line with the overall increase in manufacturing activities of industrial brushes. The overall increase was also due to higher raw material prices as the average price of our monofilament materials per kg increased by approximately 4.5% from an average price of RM13.88 per kg during FYE 2018 to an average price of RM14.51 per kg during FYE 2019; and

(ii) increase in overall direct labour costs by approximately RM0.41 million or 30.0% mainly due to recruitment of 16 new employees to support our manufacturing and quality control activities.

Comparison between FYE 2019 and FYE 2020

Our Group's total cost of sales further increased by approximately RM5.46 million or 30.1% from RM18.13 million in FYE 2019 to RM23.59 million in FYE 2020. The increase was mainly due to the following reasons:

(i) increase in manufacturing raw materials consumed by approximately RM2.42 million or 34.6% mainly due to increase in consumption of monofilament material to manufacture industrial brushes in line with the overall increase in manufacturing revenue. However, the percentage of increase in the manufacturing raw materials consumed of 34.6% is lower than the percentage of increase in our manufacturing revenue levels of 48.0%. This was mainly due to the decrease in average price of monofilament materials per kg which decreased by approximately 11.5% from an average price of RM14.51 per kg during FYE 2019 to an average price of RM12.84 per kg during FYE 2020 due to the economic slowdown caused by the COVID-19 pandemic outbreak and continued uncertainty stemming from the US-China trade tension which led to the oversupply and pressured prices of monofilament materials during FYE 2020;

(ii) increase in purchases of trading products (comprising industrial hardware and machinery parts purchased from resellers, distributors and hardware dealers) by approximately RM2.74 million or 35.0% from RM7.82 million in FYE 2019 to RM10.56 million in FYE 2020 in line with the increase in revenue generated from trading segment;

(iii) increase in direct labour costs by approximately RM0.14 million or 7.7% mainly due to recruitment of 10 new employees to support our manufacturing and quality control activities; and

(iv) higher upkeep expenses incurred by approximately RM0.12 million or 73.4% mainly due to higher purchase of machinery spare parts as more frequent maintenance were required to be performed due to the increase in our manufacturing activities and capacity.

Comparison between FYE 2020 and FYE 2021

Our Group's total cost of sales further increased by approximately RM3.32 million or 14.1% from RM23.59 million in FYE 2020 to RM26.91 million in FYE 2021. The increase was mainly due to the following reasons:

(i) increase in manufacturing raw materials consumed by approximately RM3.11 million or 33.0%, mainly due to increase in consumption of monofilament materials and plastic materials to manufacture industrial brushes. However, the percentage of increase in the manufacturing raw materials consumed of 33.0% is higher than the percentage of increase in our manufacturing revenue levels of 16.5% mainly due to higher average price of monofilament materials which increased by approximately 28.8% from an average price of RM12.84 per kg during FYE 2020 to an average price of RM16.54 per kg during FYE 2021 as well as higher average price of plastic materials which increased by approximately 29.5% mainly due to the surge in crude oil and natural gas prices which increased the overall cost to manufacture monofilament and plastic materials;

(ii) increase in depreciation of property, plant and equipment by RM0.24 million or 42.1% from RM0.57 million in FYE 2020 to RM0.81 million in FYE 2021 mainly due to the additional depreciation of plant and machinery purchased during second half year of 2020; and

(iii) increase in direct labour costs by approximately RM0.19 million or 9.8% mainly due to bonuses for our staffs (**Note:** No bonuses were paid to our staffs in FYE 2020)

(d) Analysis of GP and GP margin by segments

	Audited							
	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Manufacturing segment	8,828	49.3	8,250	44.5	14,449	52.6	15,394	48.1
Trading segment	2,220	22.4	2,830	26.6	3,936	27.2	3,222	23.8
Total	**11,048**	**39.7**	**11,080**	**37.9**	**18,385**	**43.8**	**18,616**	**40.9**

Comparison between FYE 2018 and FYE 2019

Our overall GP increased marginally by RM0.03 million or 0.3% from RM11.05 million in FYE 2018 to RM11.08 million in FYE 2019. However, our overall GP margin decreased by 1.8% from 39.7% in FYE 2018 to 37.9% in FYE 2019 mainly due to lower profitability derived from our manufacturing segment.

Manufacturing segment

Despite an increase in revenue generated from the manufacturing segment, GP derived from the manufacturing segment decreased by approximately RM0.58 million or 6.5% as the overall increase in our manufacturing cost was not directly transferred to our customers in order to remain competitive. During FYE 2019, the increase in our manufacturing cost was mainly due to higher cost of monofilament materials consumed, which has increased by approximately 4.5% as well as higher direct labour costs mainly due to the recruitment of 16 new employees to support our manufacturing and quality control activities.

Trading segment

GP derived from the trading segment increased by approximately RM0.61 million or 27.5% from RM2.22 million in FYE 2018 to RM2.83 million in FYE 2019 in line with the increase in trading revenue. Our GP margin from trading segment also increased by 4.2% from 22.4% in FYE 2018 to 26.6% in FYE 2019 mainly due to the difference in product mix sold (i.e. increase in proportion of higher margin products sold) during the financial year.

Comparison between FYE 2019 and FYE 2020

Our Group's GP increased by approximately RM7.31 million or 66.0% from RM11.08 million during FYE 2019 to RM18.39 million during FYE 2020, which is in line with the overall increase in revenue in both our manufacturing and trading segments. Our overall GP margin has also improved by 5.9% from 37.9% in FYE 2019 to 43.8% in FYE 2020 mainly due to higher profitability recorded from our manufacturing segment.

Manufacturing segment

GP derived from the manufacturing segment increased by RM6.20 million or 75.1% in line with the overall increase in our manufacturing segment revenue. In addition, our GP margin also improved by 8.1% from 44.5% in FYE 2019 to 52.6% in FYE 2020 mainly due to higher average selling price of our industrial brushes sold to our rubber gloves manufacturing customers by 2.8% (mainly contributed by higher average selling price or circular brushes and disc brushes) as well as cost savings enjoyed arising from lower cost of monofilaments materials consumed, which collectively improved our overall GP margin by approximately 3.6%. The higher average selling prices was mainly due to different brush specifications and products mix sold, which generally dependent on type of industrial brushes sold as well as the specification of the industrial brushes such as sizes, monofilament materials, density and trim length, core shaft diameters and lengths.

Trading segment

GP derived from the trading segment increased approximately by RM1.11 million or 39.1% in line with the increase in trading revenue generated. Our GP margin also increased marginally by 0.6% from 26.6% in FYE 2019 to 27.2% in FYE 2020 mainly due to the change in product mix sold (i.e. increase in proportion of higher margin products sold) during the financial year under review. In general, there were no material changes in our selling prices and purchase price of our industrial hardware and machinery parts during the financial years under review.

Comparison between FYE 2020 and FYE 2021

Our Group's GP increased marginally by approximately RM0.23 million or 1.3% from RM18.39 million during FYE 2020 to RM18.62 million during FYE 2021, which is in line with the overall increase in revenue in our manufacturing segments. Nevertheless, our overall GP margin has reduced by 2.9% from 43.8% in FYE 2020 to 40.9% in FYE 2021 mainly due to lower profitability recorded from both our manufacturing and trading segment.

Manufacturing segment

GP derived from the manufacturing segment increased by RM0.94 million or 6.5% in line with the overall increase in our manufacturing segment revenue. However, our GP margin reduced by 4.5% from 52.6% in FYE 2020 to 48.1% in FYE 2021 mainly due to the increase in the cost of monofilament materials which increased by 28.8%. Despite having a higher average selling price of industrial brushes by 2.8%, we were unable to transfer the entire increase in the cost of monofilament materials to our customers immediately.

Trading segment

Overall GP derived from the trading segment decreased approximately by RM0.71 million or 18.1% in line with the decrease in revenue generated for our trading segment. Consequently, our GP margin also decreased marginally by 3.4% from 27.2% in FYE 2020 to 23.8% in FYE 2021 mainly due to the change in product mix sold (i.e. decrease in proportion of higher margin products sold) during FYE 2021. In general, there were no material changes in our selling prices and purchase price of our industrial hardware and machinery parts during the financial years under review.

11.2.4 Other income

	Audited							
	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Decrease in provision for employee benefits obligation	-	-	-	-	-	-	16	2.0
Gain on foreign exchange								
- Realised	302	68.2	232	49.6	132	20.3	559	69.2
- Unrealised	22	4.9	1	0.2	16	2.5	-	-
Gain on disposal of property, plant and equipment	46	10.4	80	17.1	141	21.7	22	2.7

	Audited							
	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Gain on disposal of a subsidiary[(1)]	-	-	-	-	245	37.7	-	-
Gain on termination of a lease contract	-	-	-	-	-	-	2	0.2
Interest income	62	14.0	68	14.5	101	15.5	184	22.8
Insurance compensations	11	2.5	86	18.4	6	0.9	-	-
Reversal of impairment on trade receivables	-	-	-	-	-	-	6	0.7
Others[(2)]	-	-	1	0.2	9	1.4	19	2.4
Total	**443**	**100.0**	**468**	**100.0**	**650**	**100.0**	**808**	**100.0**

Notes:

(1) Based on the Foreign Business Act A.D. 1999 of Thailand, it is a requirement that the majority shareholdings of a company incorporated in Thailand to be held by Thai nationals. On 27 March 2020, YLPM disposed 55.0% equity interest held in Yew Lee Thailand to Yanee Thittaram for a cash consideration of THB1,100,000 (equivalent to RM158,730), which was arrived at based on the existing share capital of Yew Lee Thailand of THB2,000,000. Upon disposal, Yew Lee Thailand became an associate company of YLPM. The gain on disposal of RM0.25 million represents the differences between the fair value of consideration received of RM0.16 million plus the fair value of retained interest of RM0.13 million against the net asset position of Yew Lee Thailand as of the date of disposal of RM0.04 million.

(2) Mainly consist of goods and services tax recovered (which was written off previously) and sales tax refunded by the tax authorities of Malaysia and sales of scrap.

Comparison between FYE 2018 and FYE 2019

Our other income increased by approximately RM0.03 million or 6.8% from RM0.44 million during FYE 2018 to RM0.47 million during FYE 2019, which was mainly attributable to the gain on disposal of 3 units of passenger cars amounting to RM0.08 million and insurance compensations received of RM0.09 million from our insurer as compensation for the theft of a commercial vehicle.

Comparison between FYE 2019 and FYE 2020

Our other income increased by approximately RM0.18 million or 38.3% from RM0.47 million during FYE 2019 to RM0.65 million during FYE 2020. This was mainly due to the following reasons:

(a) increase in gain on disposal of property, plant and equipment by approximately RM0.06 million mainly due to the gain on disposal of 1 unit of commercial vehicle and 3 units of passenger cars; and

(b) gain on disposal arising from the deconsolidation of Yew Lee Thailand of RM0.25 million.

Comparison between FYE 2020 and FYE 2021

Our other income increased by approximately RM0.16 million or 24.6% from RM0.65 million during FYE 2020 to RM0.81 million during FYE 2021. This was mainly due to the following reasons:

(a) increase in realised gain on foreign exchange by approximately RM0.43 million or 323.5% arising from our sales denominated in USD to our overseas customers; and

(b) higher interest income by approximately RM0.08 million or 80.0% due to increase in cash placed in fixed deposit with licenses banks. As at 31 December 2021, our fixed deposit amounted to RM11.08 million as compared to RM5.00 million as at 31 December 2020.

11.2.5 Administrative expenses

	Audited							
	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Audit fees	12	0.3	29	0.7	45	0.9	52	0.8
Bank charges	18	0.4	18	0.4	16	0.3	13	0.2
Professional fees	19	0.4	43	1.0	121	2.4	(5)320	5.0
Depreciation of property, plant and equipment	416	9.8	203	4.7	220	4.3	216	3.4
Amortisation of right-of-use assets(1)	-	-	296	6.8	300	5.9	372	5.8
Utilities charges	83	2.0	87	2.0	85	1.7	80	1.3
Courier charges	33	0.8	31	0.7	35	0.7	29	0.5
Upkeep expenses	139	3.3	216	5.0	170	3.3	204	3.2
Rental expenses	28	0.7	17	0.4	5	0.1	3	~
Directors' remuneration	1,426	33.6	(3)1,099	25.3	(3)1,369	26.8	(3)1,765	27.6
Staff costs	1,265	29.8	1,455	33.5	(4)2,065	40.4	(4)2,588	40.5
Exhibition	154	3.6	31	0.7	-	-	-	-
Travelling expenses	324	7.6	345	7.9	280	5.5	341	5.3
Printing and stationery	46	1.1	44	1.0	41	0.8	52	0.8
Insurance and road tax	91	2.1	101	2.3	62	1.2	87	1.4
Security fees	43	1.0	43	1.0	46	0.9	44	0.7
Others(2)	148	3.5	290	6.6	248	4.8	224	3.5
Total	**4,245**	**100.0**	**4,348**	**100.0**	**5,108**	**100.0**	**6,390**	**100.0**

Notes:

~ Less than 0.1%.

(1) This mainly relates to our lease of our office space (mainly in Klang, Thailand and Indonesia), leasehold lands and buildings, motor vehicles and machineries purchased under finance leases, which are classified as right-of-use assets arising from the adoption of MFRS 16 'Leases'.

(2) Mainly consists of advertisement, entertainment, staff welfare and sundry expenses, each representing not more than 1.0% of our administrative expenses for each financial years under review.

(3) The decrease in our directors' remuneration in FYE 2019 was due to a one-off ex-gratia payment made to reward our Promoter and Executive Director, namely Chee Wai Ying, amounting to RM0.40 million during FYE 2018, in recognition for her past contributions to our Group which did not reoccur in FYE 2019. Our Directors' remuneration increased by approximately RM0.27 million or 24.6% in FYE 2020 and a further RM0.40 million or 28.9% in FYE 2021 mainly due to an upward revision in the remuneration of our Executive Directors as well as appointment of new directors.

(4) The increase in staff costs in FYE 2020 by RM0.61 million or 41.9% was mainly due to provision of bonus and recruitment of 12 additional staff for our operations. Our staff cost further increased by RM0.52 million or 25.3% in FYE 2021 mainly due to bonus, salary increment and a full year salary recognition of our Chief Financial Officer whom was appointed in October 2020.

(5) The increase in professional fees in FYE 2021 by RM0.20 million or 164.5% was mainly due to the partial charge out of our Listing expenses of approximately RM0.21 million.

For the financial years under review, our administrative expenses have been increasing in tandem with the increase in our overall revenue. As our Group's revenue increase, we will incur additional administrative expenses to support our business growth. The majority of our administrative expenses are staff costs (comprising administrative, human resources, general workers, sales and marketing staff), Directors' remuneration and depreciation of property, plant and equipment during the financial years under review.

11.2.6 Selling and distribution expenses

	Audited							
	FYE 2018		**FYE 2019**		**FYE 2020**		**FYE 2021**	
	RM'000	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Freight and transportation charges	127	56.2	100	76.9	178	65.4	256	76.2
Sales commissions	99	43.8	30	23.1	94	34.6	80	23.8
Total	**226**	**100.0**	**130**	**100.0**	**272**	**100.0**	**336**	**100.0**

Our selling and distribution expenses comprise the following:

(a) freight and transportation charges, which mainly relates to the expenses incurred for the delivery of our products to our overseas customers. During FYE 2019, our freight and transportation charges decreased by approximately RM0.03 million or 21.3% mainly due to overall decrease in export of our industrial brushes to our customers in Vietnam. Our overall freight and transportation charges increased by approximately RM0.08 million or 80.0% during FYE 2020 and a further RM0.08 million or 43.8% during FYE 2021 in line with the overall increase in sales of our products to our foreign customers; and

(b) sales commissions paid to our sales and marketing staffs, which are paid based on their sales performance determined based on our Group's internal cumulative monthly sales target policy. During FYE 2019, our sales commission paid decreased despite the overall increase in revenue levels as certain sales and marketing staffs did not achieve the cumulative sales targets set in FYE 2019. Our sales commissions generally range from 0.3% to 3.0% depending on the sales targets achieved by our sales and marketing staffs.

11.2.7 Other expenses

	Audited							
	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Property, plant and equipment written off	12	10.1	63	100.0	1	1.1	19	30.6
Impairment loss of trade receivables	107	89.9	-	-	19	21.4	-	-
Bad debts written off	-	-	-	-	2	2.2	-	-
Loss on disposal of property, plant and equipment	-	-	-	-	67	75.3	11	17.8
Unrealised loss on foreign exchange	-	-	-	-	-	-	32	51.6
Total	**119**	**100.0**	**63**	**100.0**	**89**	**100.0**	**62**	**100.0**

For the financial years under review, our other expenses mainly comprise of the following:

(a) property, plant and equipment written off due to theft of a commercial vehicle during FYE 2019;

(b) impairment loss of trade receivables during FYE 2018 and FYE 2020, which were long overdue beyond our standard credit period granted to our customers of 30 to 90 days. The impairment loss of trade receivables amounting to RM0.11 million mainly relates to 2 existing customers in the rubber gloves manufacturing industry (not being our major customers during the financial years under review) which are in the process of winding-up;

(c) one-off loss on disposal of property, plant and equipment incurred during FYE 2020, relates to the transfer of 1 unit of passenger car to our former operation manager at no cost as a form of appreciation for her long services; and

(d) unrealised loss on foreign exchange of RM0.03 million during FYE 2021 mainly due the weakening of RM against the USD arising from the advances received from our customer for the orders of industrial brushes.

11.2.8 Finance costs

	Audited							
	FYE 2018		FYE 2019		FYE 2020		FYE 2021	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest expenses on:								
Term loans	261	80.8	227	86.3	178	77.1	228	82.3
Lease liabilities	61	18.9	33	12.6	52	22.5	49	17.7
Bankers' acceptance	1	0.3	3	1.1	1	0.4	-	-
Total	**323**	**100.0**	**263**	**100.0**	**231**	**100.0**	**277**	**100.0**

Our finance costs mainly comprise of interest expenses on our borrowings, as follows:

(a) term loans which are mainly utilised for the expansion of our Manufacturing Facilities and purchase of property. Interest on term loan has been on a decreasing trend throughout FYE 2018 to FYE 2020 as we continued to make prompt payments. Interest expenses for our term loans further increased in FYE 2021 as we drawdown additional term loans amounting to RM2.74 million to purchase our New Office and RM1.27 million for working capital purposes.

(b) lease liabilities for right-of-use assets, which has decreased in FYE 2019 mainly due to the full settlement of 1 unit of machinery. Interest on lease liabilities subsequently increased in FYE 2020 due to the additional finance lease for 1 unit of semi-automated CNC continuous cycle drilling and filling machine, 2 units of commercial vehicles and 2 units of passenger cars; and

(c) bankers' acceptances to finance our working capital requirements.

11.2.9 PBT and PBT margin

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
PBT (RM'000)	6,578	6,744	13,541	12,583
PBT margin (%)	23.7	23.1	32.3	27.6

Comparison between FYE 2018 and FYE 2019

PBT increased by approximately RM0.17 million or 2.5% mainly due to lower selling and distribution expenses, finance costs as well as one-off payment made to reward our Promoter and Executive Director, namely Chee Wai Ying which did not recur in FYE 2019. However, our PBT margin decreased marginally by 0.6% from 23.7% in FYE 2018 to 23.1% in FYE 2019 mainly due to the decrease in our GP margin from our manufacturing segment arising from higher raw material cost and direct labour cost incurred.

Comparison between FYE 2019 and FYE 2020

Our PBT increased significantly by approximately RM6.80 million or 100.8% mainly due to higher GP generated by both our manufacturing and trading segments by 75.1% and 39.1%, respectively. Our PBT margin has also improved from 23.1% in FYE 2019 to 32.3% in FYE 2020 mainly due to higher GP margin generated from our manufacturing segment arising from higher average selling price of our industrial brushes sold as well as cost saving from lower cost of monofilaments consumed for our manufacturing segment.

Comparison between FYE 2020 and FYE 2021

Our PBT decreased by approximately RM0.96 million or 7.1% due to higher administrative expenses which increased by RM1.28 million or 25.1% mainly due to higher staff cost by RM0.52 million, director's remuneration by RM0.40 million and the charge out of listing expenses of RM0.21 million.

Our PBT margin has also decreased from 32.3% in FYE 2020 to 27.6% in FYE 2021 mainly due to lower GP margin generated from our manufacturing segment mainly due to higher cost of monofilaments and plastic materials consumed.

11.2.10 Taxation

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
Malaysian income tax (RM'000)	1,496	1,549	3,158	2,470
Foreign income tax (RM'000)	-	-	[(1)]	-
Taxation (RM'000)	**1,496**	**1,549**	**3,158**	**2,470**

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
Group effective tax rate (%)[(2)]	22.7	23.0	23.3	19.6
Statutory tax rate (%)				
- Malaysia	24.0	24.0	24.0	24.0
- Indonesia	25.0	25.0	22.0	22.0
- Thailand	20.0	20.0	20.0	20.0

Notes:

(1) Income tax on Yew Lee Thailand and Yew Lee Indonesia collectively amounted to less than RM1,000. Yew Lee Thailand and Yew Lee Indonesia are subject to withholding tax of 10.0% and 15.0%, respectively for any dividend payments made to YLPM. Nevertheless, no dividend payment was made during the financial years under review.

(2) Our Group's effective tax rate is calculated by dividing our Group's total tax expense for the financial year over PBT for the corresponding financial year.

During the financial years under review, our taxation is almost entirely derived from YLPM and YLPH. Our group effective tax rate is generally lower than the statutory tax rate in Malaysia as both YLPM and YLPH has a paid-up share capital of less than RM2.5 million and hence is taxed based on the Small-Medium Enterprises ("**SME**") tax rate.

Based on the SME tax rate in FYE 2018, YLPM and YLPH were taxed at the statutory rate of 18% on the first RM500,000 and 24% on the balance of chargeable income. In FYE 2019, YLPM and YLPH were taxed at the statutory rate of 17% on the first RM500,000 and 24% on the balance of chargeable income. Whilst in FYE 2020, YLPM and YLPH were taxed at the statutory rate of 17% on the first RM600,000 and 24% on the balance of chargeable income. Upon our successful Listing, the SME tax rate will no longer be applicable to our Group.

Our Group's effective tax rate increased marginally from 22.7% in FYE 2018 to 23.0% in FYE 2019 mainly due to higher amount of non-deductible expenses incurred in FYE 2019. Our Group effective tax rate further increased to 23.3% in FYE 2020 mainly due to the significant increase in our PBT as chargeable income exceeding the first RM600,000 are taxed at 24.0%. Our Group's effective tax rate subsequently decreased to 19.6% in FYE 2021 mainly due to under provision of reinvestment allowance and capital allowance from the purchase of additional plant, machineries and factory equipment in prior year.

11.3 REVIEW OF FINANCIAL POSITION

(a) Assets

	Audited			
	As at 31 December			
	2018	**2019**	**2020**	**2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Non-current assets				
Property, plant and equipment	12,650	4,371	5,500	10,110
Right-of-use assets[(1)]	-	8,547	9,670	8,524
Investment in an associate company	-	-	[(2)]221	446
Total non-current assets	**12,650**	**12,918**	**15,391**	**19,080**

	Audited			
	As at 31 December			
	2018	2019	2020	2021
	RM'000	RM'000	RM'000	RM'000
Current assets				
Inventories	4,089	5,027	4,706	6,873
Trade receivables	6,992	6,961	8,932	9,160
Other receivables, deposits and prepayments	56	457	472	571
Tax recoverable	-	-	-	269
Fixed deposits with licensed banks	2,000	2,000	5,000	(3)11,076
Cash and bank balances	9,802	10,757	15,012	8,737
Total current assets	**22,939**	**25,202**	**34,122**	**36,686**
Total assets	**35,589**	**38,120**	**49,513**	**55,766**

Notes:

(1) This mainly relates to our lease of our office spaces (mainly in Klang, Thailand and Indonesia), leasehold lands and buildings, motor vehicles and machineries purchased under finance leases, which are classified as right-of-use assets arising from the adoption of MFRS 16 'Leases'.

(2) This relates to the recognition of our investment in the 45.0% equity interest in Yew Lee Thailand (our associate company). Save as disclosed above, there are no other items included in the investment in our associate company (Yew Lee Thailand).

(3) Our Group placed higher amount of free cashflow into fixed deposits with licensed banks in order to enjoy a higher interest income.

Comparison between 31 December 2018 and 31 December 2019

Our total assets increased by approximately RM2.53 million or 7.1% from RM35.59 million as at 31 December 2018 to RM38.12 million as at 31 December 2019, mainly due to:

(i) increase in inventories by approximately RM0.94 million or 22.9% due to the increase in raw materials purchased during the end of 2019 for our manufacturing segment in anticipation for the increase in purchase orders to be received by our major customers;

(ii) higher cash and bank balances by approximately RM0.96 million or 9.7% resulting from the net increase in our overall cash and cash equivalents; and

(iii) increase in other receivables, deposits and prepayments by approximately RM0.40 million or 716.1% mainly due to upfront deposits paid for the purchase of a new semi-automated CNC continuous cycle drilling and filling machine of RM0.20 million, participation in trade exhibitions of RM0.06 million and advances paid to our service providers for the upkeep of machinery and equipment of RM0.04 million.

Comparison between 31 December 2019 and 31 December 2020

Our total assets increased by approximately RM11.39 million or 29.9% from RM38.12 million as at 31 December 2019 to RM49.51 million as at 31 December 2020, mainly due to:

(i) increase in trade receivables by approximately RM1.97 million or 28.3% mainly due to higher revenue generated from our customers in the rubber gloves manufacturing industry generated towards the end of FYE 2020;

(ii) higher fixed deposits as well as cash and bank balances by RM3.0 million and RM4.26 million respectively, arising from higher net cash generated from our operating activities;

(iii) increase in property, plant and equipment by approximately RM1.13 million or 25.8% due to the purchase of 2 units of passenger cars, 7 units of factory machineries and equipment (such as permanent magnet synchronous motor) as well as installation of the 234.8 kilowatt solar photovoltaic system on the rooftops at our Manufacturing Facilities; and

(iv) increase in right-of-use assets by approximately RM1.12 million or 13.1% due to the purchase of 2 units of passenger cars, 2 units of commercial vehicles, a semi-automated CNC continuous cycle drilling and filling machine, the improvements made on our Manufacturing Facilities.

Comparison between 31 December 2020 and 31 December 2021

Our total assets increased by approximately RM6.26 million or 12.6% from RM49.51 million as at 31 December 2020 to RM55.77 million as at 31 December 2021, mainly due to the following:

(i) increase in property, plant and equipment by RM4.61 million or 83.8% due to additional capital work-in-progress for the construction of our New Office amounting to RM3.17 million and purchase of additional plant and machineries of RM1.43 million; and

(ii) increase in inventories by RM2.17 million or 46.0% mainly due to the higher quantity of monofilament materials purchased as we expect the cost of monofilament materials to increase further due to the increase in global crude oil and natural gas prices.

(b) Liabilities

	Audited			
	As at 31 December			
	2018	**2019**	**2020**	**2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
<u>Non-current liabilities</u>				
Bank borrowings	4,680	4,578	4,379	7,936
Lease liabilities	349	452	1,002	485
Deferred tax liabilities	613	580	704	882
Provisions for employee benefits obligations[(1)]	-	18	19	-
Total non-current liabilities	**5,642**	**5,628**	**6,104**	**9,303**
<u>Current liabilities</u>				
Trade payables	3,255	3,045	5,238	2,733
Other payables and accruals	806	534	2,094	1,505
Bank borrowings	78	329	158	358
Lease liabilities	459	268	511	302
Tax payable	421	232	939	-
Dividend payable	2,000	2,000	3,000	-
Total current liabilities	**7,019**	**6,408**	**11,940**	**4,898**
Total liabilities	**12,661**	**12,036**	**18,044**	**14,201**

Note:

(1) This relates to the provisions for employee benefit obligations for the employees of Yew Lee Indonesia and Yew Lee Thailand.

Comparison between 31 December 2018 and 31 December 2019

Our total liabilities decreased by approximately RM0.62 million or 4.9% from RM12.66 million as at 31 December 2018 to RM12.04 million as at 31 December 2019, mainly due to:

(i) marginal decrease in our trade payables by approximately RM0.21 million mainly due to bulk purchase of monofilament materials made towards the end of FYE 2018;

(ii) decrease in other payables by approximately RM0.27 million due to accrual of a one-off payment to reward our Promoter and Executive Director, namely Chee Wai Ying amounting to RM0.40 million which did not recur in FYE 2019; and

(iii) decrease in tax payable by approximately RM0.19 million mainly due to higher tax paid by YLPM of RM1.56 million during FYE 2019.

Comparison between 31 December 2019 and 31 December 2020

Our total liabilities increased by approximately RM6.00 million or 49.8% from RM12.04 million as at 31 December 2019 to RM18.04 million as at 31 December 2020, mainly due to:

(i) increase in trade payables by RM2.19 million mainly due to increase in purchase of monofilament materials as well as industrial hardware and machinery parts to cater for the increased in orders received from our rubber gloves manufacturing customers;

(ii) increase in other payables and accruals by approximately RM1.56 million mainly due to an advance payment of RM1.27 million by our new customer from Taiwan for industrial brushes;

(iii) increase in dividend payable by RM1.00 million which was paid in the first quarter of 2021;

(iv) increase in total lease liabilities by approximately RM0.79 million mainly due to the purchase of a unit of semi-automated CNC continuous cycle drilling and filling machine, 2 units of passenger cars and 2 units of commercial vehicles which were financed through finance lease; and

(v) increase in tax payable by RM0.71 million due to higher tax provision made in line with the increase in our revenue.

Comparison between 31 December 2020 and 31 December 2021

Our total liabilities decreased by approximately RM3.84 million or 21.3% from RM18.04 million as at 31 December 2020 to RM14.20 million as at 31 December 2021, mainly due to:

(i) decrease in trade payables by RM2.51 million or 47.9% from RM5.24 million in FYE 2020 to RM2.73 million in FYE 2021 mainly due to higher quantity of monofilament materials purchased during the financial year as our Group makes prompt payments to our monofilament materials supplier which generally grants our Group a shorter credit terms of 45 days; and

(ii) decrease in dividend payable by RM3.00 million as it has been paid during the financial year.

The decrease of RM5.51 million in trade payable and dividend payable collectively was offset by the increase in bank borrowings by RM3.76 million mainly due to the drawdown of a new term loan to finance the acquisition of our New Office and working capital purposes.

11.4 REVIEW OF CASH FLOW POSITION

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Net cash generated from operating activities	7,568	4,699	14,560	5,023
Net cash used in investing activities	(197)	(1,049)	(2,365)	(4,924)
Net cash used in financing activities	(3,544)	(2,663)	(4,929)	(298)
Net increase in cash and cash equivalents	**3,827**	**987**	**7,266**	**(199)**
Effect of foreign currency translation	-	(32)	(11)	(1)-
Cash and cash equivalents at beginning of the financial year	7,975	11,802	12,757	20,012
Cash and cash equivalents at end of the financial year	**11,802**	**12,757**	**20,012**	**19,813**
Cash and cash equivalents at end of the financial year comprise:				
Cash and bank balances	9,802	10,757	15,012	8,737
Fixed deposits with licensed banks	2,000	2,000	5,000	11,076
Total	**11,802**	**12,757**	**20,012**	**19,813**

Note:

(1) Represents less than RM1,000.

FYE 2018

Net cash for operating activities

Our net cash generated from operating activities amounted to RM7.57 million. Our Group's collection of RM27.19 million was offset by payments of RM19.62 million. Such payments were mainly for:

(i) payment to our suppliers of RM14.49 million;

(ii) staff costs and directors' remuneration of RM4.06 million;

(iii) income tax paid of RM1.05 million; and

(iv) rental expenses of RM0.02 million for our Klang Sales Office.

Net cash for investing activities

Our net cash used in investing activities amounted to RM0.20 million, mainly due to the following purchases:

(i) plant and machineries, factory equipment and electrical installation, office equipment and furniture and fittings amounting to RM0.15 million; and

(ii) 2 commercial vehicles and 1 passenger car amounting to RM0.16 million.

Net cash used in investing activities was partially offset by interest income received from fixed deposits of RM0.06 million and proceeds from the disposal of 2 commercial vehicles of RM0.05 million.

Net cash for financing activities

Our net cash used in financing activities amounted to RM3.54 million, mainly due to the payment of dividend of RM1.50 million, repayment of term loans and lease liabilities of RM1.72 million and finance costs of RM0.32 million.

FYE 2019

Net cash for operating activities

Our net cash generated from operating activities amounted to RM4.70 million. Our Group's collection of RM29.31 million was offset by payments of RM24.61 million. Such payments were mainly for:

(i) payment to our suppliers of RM18.49 million;

(ii) staff costs and directors' remuneration of RM4.33 million;

(iii) income tax paid of RM1.77 million; and

(iv) rental expenses of RM0.02 million for our Klang Sales Office.

Net cash for investing activities

Our net cash used in investing activities amounted to RM1.05 million, mainly due to the following purchases:

(i) plant and machineries, factory equipment and electrical installation, office equipment, furniture and fittings as well as signboard amounting to RM0.99 million;

(ii) 2 passenger cars amounting to RM0.13 million; and

(iii) right-of-use assets comprising 1 commercial vehicle and 2 passenger cars amounting to RM0.08 million.

Net cash used in investing activities was partially offset by interest income received from fixed deposits of RM0.07 million and proceeds from the disposal of 3 passenger cars of RM0.08 million.

Net cash for financing activities

Our net cash used in financing activities amounted to RM2.66 million, mainly due to the payment of dividend of RM2.00 million, repayment of term loans and lease liabilities of RM0.64 million and finance costs of RM0.26 million, which was partially offset by the drawdown of banker's acceptance of RM0.24 million for our working capital requirements.

FYE 2020

Net cash for operating activities

Our net cash generated from operating activities amounted to RM14.56 million. Our Group's collection of RM40.08 million was offset by payments of RM25.52 million, mainly for the following:

(i) payment to suppliers of RM17.84 million;

(ii) staff costs and directors' remuneration of RM5.35 million; and

(iii) income tax paid of RM2.33 million.

Net cash for investing activities

Our net cash used in investing activities amounted to RM2.37 million, mainly due to the following purchases:

(i) plant and machineries, factory equipment and electrical installation, office equipment and furniture and fittings amounting to RM2.01 million;

(ii) 2 passenger cars amounting to RM0.16 million; and

(iii) right-of-use assets comprising of 1 semi-automated CNC continuous cycle drilling and filling machine, 2 commercial vehicles, 2 passenger cars and improvements made on our Manufacturing Facilities amounting to RM0.55 million.

Net cash used in investing activities was partially offset by net proceeds from the disposal of 55.0% shareholding in Yew Lee Thailand of RM0.11 million, interest income received from fixed deposits amounting to RM0.10 million and proceeds from the disposal of 1 commercial vehicle and 3 passenger cars amounting to RM0.14 million.

Net cash for financing activities

Our net cash used in financing activities amounted to RM4.93 million, mainly due to the payment of dividend of RM4.00 million, repayment of term loans, bankers' acceptance and lease liabilities of RM0.70 million and finance costs of RM0.23 million.

FYE 2021

Net cash for operating activities

Our net cash generated from operating activities amounted to RM5.02 million. Our Group's collection of RM45.49 million was offset by payments of RM40.47 million, mainly for the following:

(i) payment to suppliers of RM30.51 million;

(ii) staff costs and directors' remuneration of RM6.46 million; and

(iii) income tax paid of RM3.50 million.

Net cash for investing activities

Our net cash used in investing activities amounted to RM4.92 million, mainly due to the following purchases:

(i) capital work-in-progress recognised on our New Office amounting to RM3.17 million;

(ii) plant and machineries, factory equipment and electrical installation, office equipment and furniture and fittings amounting to RM1.65 million;

(iii) 2 passenger cars amounting to RM0.17 million; and

(iv) right-of-use assets comprising of buildings and improvements made on our Manufacturing Facilities amounting to RM0.16 million.

Net cash used in investing activities was partially offset by interest income received from fixed deposits of RM0.11 million and proceeds from the disposal of 2 passenger cars of RM0.12 million.

Net cash for financing activities

Our net cash used in financing activities amounted to RM0.30 million, mainly due to the payment of dividend of RM3.00 million, repayment of term loans and lease liabilities of RM1.03 million and finance costs of RM0.28 million. These payments are offset by the drawn down of 2 term loans amounting to RM4.01 million.

11.5 LIQUIDITY AND CAPITAL RESOURCES

11.5.1 Working capital

We finance our operations with cash generated from operations, credit extended by trade payables and/or financial institutions as well as cash and bank balances. The facilities from financial institutions comprise term loans, lease liabilities as well as trade facility such as bankers' acceptance.

Our Board confirms that we have sufficient working capital for our existing and foreseeable requirements for a period of 12 months from the date of this Prospectus after taking into account the following:

(i) our expected future cash flows from our business operations;

(ii) cash and bank balances available as at LPD of RM22.23 million;

(iii) RM11.12 million in total banking facilities (excluding lease liabilities), of which RM9.32 million have been utilised as at LPD and credit line of RM1.80 million available for drawdown, if required; and

(iv) proceeds from our Public Issue.

Based on the pro forma consolidated statements of financial position of our Group as at 31 December 2021 (after the Acquisitions but before our Public Issue), our NA position stood at RM41.57 million and our gearing level is 0.22 times. Our NA position after the Acquisitions, Public Issue and utilisation of proceeds is RM75.25 million with gearing ratio of 0.01 times.

11. FINANCIAL INFORMATION *(cont'd)*

11.6 BORROWINGS

We utilise term loans and lease liabilities to finance the purchase of our property, plant and equipment and right-of-use assets. All these facilities are interest bearing and denominated in RM. Details of the outstanding borrowings and finance lease as at 31 December 2021 are set out below:

Type of borrowings	Purpose	Securities provided	Tenure	Interest Rate %	As at 31 December 2021 RM'000
Interest bearing short-term borrowings, payable within 1 year:					
Term loans	Construction and expansion of our Manufacturing Facilities	(a) First party charge over the property; and (b) Joint and several guarantees by our Directors	Up to 360 months	3.5	153
Term loans	Purchase of an apartment unit in Shah Alam, Selangor	(a) First party charge over the property; and (b) Joint and several guarantees by our Directors	Up to 240 months	3.3	10
Term loans	Working capital requirements	(a) Joint and several guarantees by our Directors	Up to 180 months	3.4	66
Term loans	Purchase of New Office	(a) First party charge over the property; and (b) Joint and several guarantees by our Directors	Up to 240 months	3.2	129
Lease liabilities	Purchase of motor vehicles	(a) Motor vehicles under the finance lease; and (b) Joint and several guarantees by our Directors	Between 36 to 60 months	1.9 to 3.8	277
				Total	**635**
Interest bearing long-term borrowings, payable after 1 year:					
Term loans	Construction and expansion of our Manufacturing Facilities	(a) First party charge over the property; and (b) Joint and several guarantees by our Directors	Up to 360 months	3.5	4,066
Term loans	Purchase an apartment unit in Shah Alam, Selangor	(a) First party charge over the property; and (b) Joint and several guarantees by our Directors	Up to 240 months	3.3	151

11. FINANCIAL INFORMATION *(cont'd)*

Type of borrowings	Purpose	Securities provided	Tenure	Interest Rate %	As at 31 December 2021 RM'000
Term loans	Working capital	(a) Joint and several guarantees by our Directors	Up to 180 months	3.4	1,151
Term loans	Purchase of New Office	(a) First party charge over the property; and (b) Joint and several guarantees by our Directors	Up to 240 months	3.2	2,568
Lease liabilities	Purchase of motor vehicles	(a) Motor vehicles under the finance lease; and (b) Joint and several guarantees by our Directors	Up to 36 to 60 months	1.9 to 3.8	419
				Total	**8,355**
				Total borrowings	**8,990**
				Gearing (times)	0.22
				After Acquisitions but before IPO and utilisation of proceeds[1]	0.22
				After Acquisitions, IPO and utilisation of proceeds[2]	0.01

Notes:

(1) Computed based on our pro forma equity attributable to the owners of our Company of RM41.57 million after the Acquisitions but before our IPO and utilisation of proceeds.
(2) Computed based on our pro forma equity attributable to the owners of our Company of RM75.25 million after the Acquisitions, IPO and utilisation of proceeds which includes the repayment of our bank borrowings of RM8.90 million.
(3) The interest rates include ijarah rate and profit rate for Islamic financing facilities procured by our Group.

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

Details	Purpose	Tenure	As at 31 December 2021 RM'000
Lease liabilities payable within 1 year	Rental for Klang Sales Office	Initial lease of 2 years with option to renew for another 2 years	25
Lease liabilities payable after 1 year	Rental for Klang Sales Office	Initial lease of 2 years with option to renew for another 2 years	66
		Total	**91**

As at LPD:

(i) we do not have any borrowings which are non-interest bearing or in foreign currency;

(ii) we have not defaulted on payments of principal sums and/or interests in respect of any borrowings;

(iii) neither our Company nor our subsidiaries and associate company are in breach of any terms and conditions or covenants associated with the credit arrangements or bank loans which can materially affect our financial position and operations; and

(iv) we have not experienced any claw back or reduction in the facilities granted to us by our lenders.

11.7 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

Save as disclosed in Section 11.6 above, we do not have nor utilise any other financial instruments or have any treasury policies. All our financial instruments are used for the purchase of properties, motor vehicles and plant and machineries and working capital purpose to conduct our business. As at 31 December 2021, save for the finance lease liabilities which are based on fixed rates, all our other facilities with licensed banks are based on base rate plus or minus a rate which varies depending on the type of facility.

11.8 MATERIAL CAPITAL COMMITMENTS, MATERIAL LITIGATION AND CONTINGENT LIABILITIES

11.8.1 Material capital commitments

As at LPD, save for the material capital commitments in relation to the renovation of New Office, construction of new warehouse facility and office building, purchase of new manufacturing machineries and equipment as disclosed in Sections 4.9 and 6.20, we do not have any other material capital commitments.

11.8.2 Material litigations and contingent liability

As at LPD, 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 financial performance, position or profitability. As at LPD, our Directors confirm that there are no contingent liabilities incurred by our Group, which upon becoming enforceable may have a material effect our Group's financial performance, position or profitability.

11.9 KEY FINANCIAL RATIOS

The key financial ratios of our Group for FYE 2018 to FYE 2021 are as follows:

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
Trade receivables turnover (days)(1)	88	87	69	73
Trade payables turnover (days)(2)	61	73	76	58
Inventory turnover (days)(3)	95	112	89	93
Current ratio (times)(4)	3.3	3.9	2.9	7.5
Gearing ratio (times)(5)	0.24	0.21	0.19	0.22

Notes:

(1) Computed based on the following:

$$\frac{\text{(Opening trade receivables + closing trade receivables) /2}}{\text{Revenue}} \quad \text{x} \quad \text{365 days}$$

	FYE 2018	FYE 2019	FYE 2020	FYE 2021
	RM'000	RM'000	RM'000	RM'000
Opening trade receivables	6,418	6,992	6,961	8,932
Closing trade receivables	6,992	6,961	8,932	9,160
Revenue	27,813	29,208	41,974	45,525
Trade receivables turnover (days)	88	87	69	73

(2) Computed based on the following:

$$\frac{\text{(Opening trade payables + closing trade payables) /2}}{\text{Purchases}} \quad \text{x} \quad \text{365 days}$$

	FYE 2018	FYE 2019	FYE 2020	FYE 2021
	RM'000	RM'000	RM'000	RM'000
Opening trade payables	1,755	3,255	3,045	5,238
Closing trade payables	3,255	3,045	5,238	2,733
Purchases	14,923	15,799	19,766	25,108
Trade payables turnover (days)	61	73	76	58

(3) Computed based on the following:

$$\frac{\text{(Opening inventories + closing inventories) /2}}{\text{Cost of materials consumed}} \quad \text{x} \quad \text{365 days}$$

	FYE 2018	FYE 2019	FYE 2020	FYE 2021
	RM'000	RM'000	RM'000	RM'000
Opening inventories	3,229	4,089	5,027	4,706
Closing inventories	4,089	5,027	4,706	6,873
Cost of materials consumed	14,038	14,819	19,981	22,843
Inventory turnover (days)	95	112	89	93

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

(5) Computed based on the following:

$$\frac{\text{Total loans and borrowings (excluding lease liabilities arising from the rented properties)}}{\text{Total equity attributable to owners of the Company}}$$

	As at 31 December			
	2018	2019	2020	2021
	RM'000	RM'000	RM'000	RM'000
Total loans and borrowings[(i)]	5,566	5,422	5,985	8,990
Total equity attributable to owners of our Company	22,928	26,084	31,466	41,565
Gearing ratio (times)	0.24	0.21	0.19	0.22

Note:

(i) Based on total borrowings and lease liabilities excluding lease liabilities arising from the rented properties of RM0.21 million as at 31 December 2019, RM0.07 million as at 31 December 2020 and RM0.09 million as at 31 December 2021.

(a) Trade receivables turnover

The normal credit period granted by us to our customers is between 30 to 90 days from the date of invoice. Our trade receivables turnover days decreased from 88 days in FYE 2018 to 87 days in FYE 2019 and 69 days in FYE 2020 due to faster collections from our customers. Our trade receivables turnover days increased by 4 days to 73 days in FYE 2021 mainly due to slower collections from certain overseas customers. The ageing analysis of our trade receivables as at 31 December 2021 is as follows:

	Trade receivables as at 31 December 2021		Amount collected from 1 January 2022 to LPD		Trade receivables net of subsequent collections	
	RM'000	Percentage of trade receivables	RM'000	Percentage collected	RM'000	Percentage of trade receivables net of subsequent collections
	(a)	(a)/ total of (a)	(b)	(b) /(a)	(c) = (a)-(b)	(c)/ total of (c)
Neither past due nor impaired	7,381	80.6	6,960	94.3	421	87.5
Past due:						
• 1 to 30 days	863	9.4	816	94.6	47	9.8
• 31 to 60 days	674	7.3	674	100.0	-	-
• 61 to 90 days	121	1.3	121	100.0	-	-
• More than 90 days	134	1.5	110	82.1	24	5.0
	1,792	**19.5**	1,721	96.0	71	14.8
Impaired and provided for	(13)	(0.1)	(2)	(15.4)	(11)	(2.3)
Total	**9,160**	**100.0**	**8,679**	**94.7**	**481**	**100.0**

During FYE 2018 and FYE 2019, our trade receivables turnover period exceeded our trade payables turnover days mainly due to slower collections from four customers within our industrial brushes segment. Nevertheless, this did not have any material adverse impact to our Group as our total trade receivables past due represented 17.3% and 19.1% of our total trade receivables balance as at 31 December 2018 and 31 December 2019, respectively.

Our Group's total trade receivables past due as at 31 December 2021 is RM1.79 million, representing 19.5% of total trade receivables. Subsequent to 31 December 2021 and up to

LPD, we have collected RM8.68 million, representing 94.7% of the total trade receivables as at 31 December 2021.

We have not encountered any major disputes with our trade receivables. With respect to our overdue debts, we have generally been able to collect payments from our customers. Our management is of the view of that these overdue trade receivables are recoverable and we are closely monitoring the recoverability of our overdue trade receivables on a regular basis, and when required, provide for impairment of these trade receivables.

Generally, we will assess the adequacy of impairment loss allowance on overall trade receivables balance at every reporting period based on our historical collection experience. Our impairment on trade receivables for the financial years under review are as follows:

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Impairment of trade receivables	107	-	19	-

The impairment of the above trade receivables amounting to RM0.11 million in FYE 2018 relates to 2 customers which are in the process of winding-up whilst the impairment of RM0.02 million relates to 1 customer that has past due for more than 90 days.

(b) Trade payables turnover

Trade payables are recognised at their original invoice amounts which represent their fair value on initial recognition. The normal credit term granted to us by our suppliers ranges from 30 to 90 days from the date of invoice.

Our Group's trade payables turnover days increased from 61 days in FYE 2018 to 73 days in FYE 2019 and 76 days in FYE 2020. The increase in trade payables turnover days in FYE 2019 was mainly due to higher composition of suppliers which provide us with 90 days credit term. We generally pay our creditors within the normal credit terms granted by our suppliers, our total trade payables as at 31 December 2020 are all within the respective credit terms granted by our suppliers. Our trade payables turnover days decreased to 58 days in FYE 2021 mainly due to higher quantity of monofilament materials purchased during FYE 2021 as our Group made prompt payments to our suppliers of monofilament materials, which generally grants our Group a shorter credit terms of 45 days.

The ageing analysis of our trade payables as at 31 December 2021 is as follows:

	Trade payables as at 31 December 2021		**Amount paid from 1 January 2022 to LPD**	**Balance trade payables unpaid as at LPD**
	RM'000	**Percentage of trade payables**	**RM'000**	**RM'000**
	(a)	**(a)/total of (a)**	**(b)**	**(c) = (a)-(b)**
Within credit period	2,710	99.2	2,710	-
• 1 to 30 days	-	-	-	-
• 31 to 60 days	3	0.1	3	-
• 61 to 90 days	-	-	-	-
• More than 90 days	20	0.7	17	3
Total	**2,733**	**100.0**	**2,730**	**3**

As at LPD, we have settled the amount of RM2.73 million, representing 99.9% the total outstanding trade payables as at 31 December 2021. There are no disputes in respect of trade payables and no legal action has been initiated by our suppliers to demand for payment.

(c) Inventories turnover

Our Group's inventories generally consist of raw materials, finished goods and trading products. Our inventory turnover days increased from 95 days as at 31 December 2018 to 112 days as at 31 December 2019 due to higher quantity of monofilament materials purchased as we expect the price of monofilament materials to further increase. Our inventory turnover days subsequently decreased to 89 days as at 31 December 2020 due to higher consumption of raw materials in line with the increase in our sales. Our inventory turnover days subsequently increased to 93 days as at 31 December 2021 as we purchased additional volume of monofilament materials during FYE 2021 in anticipation of the potential increase in price of monofilament materials. The details of our inventories as at 31 December 2021 is as follows:

		Audited
		RM'000
Raw materials		5,127
Packing materials		62
Work-in-progress		426
Finished goods		695
Trading goods		563
	Total	**6,873**

The ageing analysis of our inventories as at 31 December 2021 is as follows:

		Audited
		RM'000
12 months or less		5,873
Between 13 months and 24 months		337
Between 25 months and 36 months		957
	Total	**7,167**
Inventories written down, net		(294)
	Total	**6,873**

Inventories which are more than 12 months mainly consist of unutilised monofilament materials, which have shorter lengths and are unsuitable for use in the manufacturing of industrial brushes of standardized length or size. However, these monofilament materials are still usable for other types of industrial brushes, depending on our customers' specifications and requirements. We have assessed on whether these inventories should be impaired by identifying any damaged, obsolete and slow-moving inventories during periodic stock count. Our inventories written down due to slow-moving for the financial years under review are as follows:

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Inventories written down	-	(119)	(286)	(43)
Inventories written back	-	-	21	133
Inventories written down/back, net	-	**(119)**	**(265)**	**90**

(d) Current ratio

Our current ratio throughout the financial years is as follows:

	Audited			
	As at 31 December			
	2018	2019	2020	2021
	RM'000	RM'000	RM'000	RM'000
Current assets	22,939	25,202	34,122	36,686
Current liabilities	(7,019)	(6,408)	(11,940)	(4,898)
Net current assets	**15,920**	**18,794**	**22,182**	**31,788**
Current ratio (times)	3.3	3.9	2.9	7.5

Our current ratio increased from 3.3 times in FYE 2018 to 3.9 times in FYE 2019 mainly due to higher inventory balance as we stock up on monofilament materials as well as higher cash and bank balances. Our current ratio decreased to 2.9 times in FYE 2020 mainly due to higher amount of dividend payable as well as increase in other payables as we received upfront payment from a new customer in Taiwan. Our current ratio subsequently improved to 7.5 times in FYE 2021 as there were no outstanding dividend payable as well as the decrease in trade payables due to prompt payments made to our suppliers of the purchase of monofilament materials within credit period granted by our suppliers, which generally grants our Group a shorter credit terms of 45 days.

Overall, the current ratios above 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 sufficient to meet our current liabilities.

(e) Gearing ratio

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

	Audited			
	As at 31 December			
	2018	2019	2020	2021
	RM'000	RM'000	RM'000	RM'000
Total loans and borrowings[(1)]	5,566	5,422	5,985	8,990
Total equity attributable to owners of our Company	22,928	26,084	31,466	41,565
Gearing ratio (times)	0.24	0.21	0.19	0.22

Note:

(1) Based on total borrowings and lease liabilities excluding lease liabilities arising from the rented properties of RM0.21 million as at 31 December 2019, RM0.07 million as at 31 December 2020 and RM0.09 million as at 31 December 2021.

Our gearing ratio decreased from 0.24 times to 0.21 times mainly due to the overall increase in our total equity, as a result of an increase in our retained earnings in FYE 2019. Our gearing ratio decreased further to 0.19 times in FYE 2020 mainly due to the overall increase in our total equity, as a result of an increase in our retained earnings during FYE 2020, despite the marginal increase in our total borrowings by approximately RM0.56 million, resulting from additional finance leases undertaken for the purchase of 2 units of commercial vehicles, 2 units of passenger cars and 1 unit of semi-automated CNC continuous cycle drilling and filling machinery during FYE 2020.

Our gearing ratio subsequently increased to 0.22 times during FYE 2021 mainly due to the additional term loans draw down amounting to RM4.01 million for the purchase of our New Office and working capital purposes.

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

11.11 IMPACT OF INFLATION

Our financial performance during the financial years under review was not significantly affected by the impact of inflation. However, there is no assurance that our business will not be adversely affected by the impact of inflation in the future.

11.12 IMPACT OF FOREIGN EXCHANGE RATE, INTEREST RATES AND/OR COMMODITY PRICES

(a) Impact of foreign exchange rate

The transactional currency exposure arising from financial assets and liabilities that are denominated in a currency other than functional currency as at 31 December 2021, are as follow:

	RM'000 equivalent of balances denominated		Total
	USD	**SGD**	**RM'000**
Financial assets			
Cash and bank balances	67	-	67
Trade receivables	1,890	4	1,894
Total	**1,957**	**4**	**1,961**
Financial liabilities			
Trade payables	1	-	1
Other payables and accruals	691	-	691
Total	**692**	**-**	**692**

Based on the above, as at 31 December 2021:

(i) our foreign currency cash and bank balances represent only 0.8% of our total cash and bank balances of RM8.74 million;

(ii) our foreign currency trade receivables represent only 20.7% of our total trade receivables of RM9.16 million; and

(iii) our foreign currency trade and other payables represent 16.3% of our total trade and other payables of RM4.24 million.

Our realised and unrealised gain on foreign exchanges for FYE 2018 to FYE 2021 is as follows:

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Realised gain on foreign exchange	302	232	132	559
Unrealised gain on foreign exchange	22	1	16	-
Unrealised loss on foreign exchange	-	-	-	(32)
Net gain	**324**	**233**	**148**	**527**

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 that would not materially affect our cash flow positions as well as cash and bank balances. Save for maintaining a USD-currency denominated bank account for receipt of payment from our overseas customers and payment to our overseas suppliers, we do not use any hedging instruments in our daily operations. Our Board reviews the foreign currency risks and strategies as needed to mitigate any adverse impacts that may result from fluctuation in foreign currency exchange rates.

(b) Impact of interest rates

	Audited			
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**
	RM'000	**RM'000**	**RM'000**	**RM'000**
EBIT	6,839	6,939	13,671	12,676
Finance costs	323	263	231	277
Interest coverage ratio (times)[(1)]	21.2	26.4	59.2	45.8

Note:

(1) Computed based on EBIT over finance costs for the financial years under review.

Interest coverage ratio measures the number of times a company can make its interest payments with its EBIT. The interest coverage ratio of our Group was between 21.2 to 59.2 times for FYE 2018 to FYE 2021, indicating that we have been able to generate sufficient EBIT to meet our interest serving obligations.

(c) Impact of commodity prices

During the financial years under review, we were not directly affected by fluctuations in commodity prices as the monofilament materials that we use in our manufacturing process is not a commodity.

11.13 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 industrial brush industry in Malaysia 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 future plans and business strategies as stated in Section 6.25; and

(c) our financial resources will strengthen, taking into account the amount to be raised from the IPO as well as internally generated funds. We may consider debt funding for our business expansions should the need arise.

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 margin or know of any factors that are likely to have a material impact on our liquidity, revenue or profitability.

11.14 TREND INFORMATION

Based on our track record for the financial years under review, including our segmental analysis of revenue and profitability, the following trends may continue to affect our business:

(a) 63.5% to 70.3% of our revenue was derived from the manufacturing segment. We expect this segment to continue contributing significantly to our revenue in the future. Moving forward, our financial performance is likely to move in tandem with the performance of the rubber gloves manufacturing industry, as such our financial performance and business activities are dependent on the performance of our major customers in the rubber gloves manufacturing industry.

The ongoing COVID-19 pandemic has resulted in an increase in global demand for rubber gloves, which has resulted in the increase in demand for our industrial brushes, industrial hardware and machinery parts, which has significantly contributed to the improvement of our Group's profitability levels during FYE 2020 and FYE 2021 of RM10.38 million and RM10.11 million, respectively, as compared to RM5.08 million and RM5.20 million recorded during FYE 2019 and FYE 2018, respectively. The rubber gloves manufacturing industry in Malaysia is expected to be driven by the on-going COVID-19 pandemic and the resulting demand for our range of industrial brushes, especially in the short term. As the COVID-19 pandemic outbreak is expected to enter into an endemic stage, the growth in demand for rubber gloves may begin to taper down and as such, we may not be able to maintain the current growth levels of our current revenue and profitability levels in the future.

(b) The main components of our cost of sales are cost of materials, which accounted for 81.6% to 84.9% of our total cost of sales for FYE 2018 to FYE 2021. 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 39.7%, 37.9%, 43.8% and 40.9% for the FYE 2018, FYE 2019, FYE 2020 and FYE 2021, respectively. We expect to maintain our GP margin within the same range in the future. This would depend on, amongst others, our continued ability to manage our costs efficiently and our revenue segmentation in the future.

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 this section, Section 6 and Section 8;

(b) 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 this section, Section 6 and Section 8;

(c) 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 this section, Section 6 and Section 8;

(d) material capital commitments for capital expenditure as set out in Section 11.8; and

(e) 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 Section 8.

Our Board is optimistic about the future prospects of our Group given the positive outlook of the industrial brushes industry as well as the industrial machinery and equipment, components and parts market in Malaysia as set out in the IMR Report in Section 7, our Group's competitive advantages and key strengths as set out in Section 6.10 as well as our future plans and business strategies as set out in Section 6.25.

Save as disclosed in Section 11.2, there are no other factors which are likely to have a material effect on our financial condition and results of operations or cause our Group's historical financial statements to be not necessarily indicative of our future financial performance.

Since 2020, due to the COVID-19 pandemic outbreak, the Government of Malaysia imposed various control measures which impacted most of the economic sectors and activities, especially those operating in non-essential services. Classified under the supply chain of essential goods and services and were approved by MITI, we continued operations during these periods albeit at a reduced production workforce capacity. From 18 March 2020 up to the LPD, we did not receive any cancellation, default in payments or suspension/delays of any contracts or purchase orders due to the COVID-19 pandemic outbreak, save for several cases involving a push-out request in the date of delivery.

Thus, our Board is optimistic about the future prospects of our Group given the positive outlook of the industrial brushes industry as well as the industrial machinery and equipment, components and parts market in Malaysia and globally as set out in the IMR Report in Section 7, our Group's competitive strengths as set out in Section 6.10 as well as our Group's future plans and business strategies as set out in Section 6.25.

Order book

There is no order book for both our manufacturing and trading segments. Our sales are mainly based on purchase orders received from customers with specifications and quantity required on an ongoing basis.

11.15 DIVIDEND POLICY

Our Company presently does not have any formal 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 and/or associate companies, present or future. There are no specific legal, financial, or economic restrictions on our existing subsidiaries and/or associate company to declare and pay dividends to us. Moving forward, the payment of dividends by our subsidiaries and/or associate companies 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.

The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of our Board and any final dividends for the year are subject to our shareholders' approval. 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.

Actual dividends proposed and declared may vary depending on the financial performance and cash flows of our Group, and may be waived if the payment of the dividends would adversely affect the cash flows and operations of our Group. The dividends declared and paid for the financial years under review are as follows:

	Audited				**Unaudited**
	FYE 2018	**FYE 2019**	**FYE 2020**	**FYE 2021**	**1 January 2022 up to LPD**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Dividends declared	(1)2,000	(2)2,000	(3)5,000	-	-
Dividends paid	1,500	2,000	4,000	3,000	-

Notes:

(1) Paid in January 2019.
(2) Paid in January and June 2020.
(3) RM2.00 million paid in December 2020, RM3.00 million paid in January and February 2021.

The dividends paid are funded via internally generated funds. Our Board do not foresee that dividends paid would affect the execution and implementation of our future plans or strategies moving forward.

11.16 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation and indebtedness:

(a) Based on the latest financial information as at 31 March 2022; and

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

	Unaudited	**I**	**II**
	(1) As at 31 March 2022	**After I and Public Issue**	**After II and utilisation of proceeds**
	RM'000	**RM'000**	**RM'000**
<u>Capitalisation</u>			
Shareholders' equity			
- Common controlling shareholders	42,791	80,062	76,476
- Non-controlling interest	(2)-	(2)-	(2)-
Total capitalisation	**42,791**	**80,062**	**76,476**
<u>Indebtedness[(3)]</u>			
<u>Current</u>			

	Unaudited	I	II
	[1] **As at 31 March 2022**	**After I and Public Issue**	**After II and utilisation of proceeds**
	RM'000	**RM'000**	**RM'000**
Bank borrowings	359	359	155
Lease liabilities	302	302	161
Non-current			
Bank borrowings	7,946	7,946	34
Lease liabilities	409	409	37
Contingent liabilities	-	-	-
Total indebtedness	**9,016**	**9,016**	**387**
Total capitalisation and indebtedness	**51,807**	**89,078**	**76,863**
Gearing ratio (times)[4]	0.21	0.11	0.01

Notes:

(1) Represents the unaudited consolidated accounts of Yew Lee, the Acquisitions have been completed on 18 January 2022.

(2) Represents less than RM1,000.

(3) All of our indebtedness are secured and guaranteed by personal guarantees provided by our Promoters.

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

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