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Date: 13 JUN 2022

The Board of Directors
UMediC Group Berhad
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Pulau Pinang

Dear Sirs,

Strategic Analysis of the Medical Device Industry in Malaysia

Protégé Associates Sdn Bhd ("**Protégé Associates**") has prepared this 'Strategic Analysis of the Medical Device Industry in Malaysia' in relation to the listing of UMediC Group Berhad ("**UMC**") on the ACE Market of Bursa Malaysia Securities Berhad ("**Bursa Securities**").

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.

Dr. Tan Chin How is a Director of Protégé Associates. He has 19 years of experience in consulting and market research for multiple industries ranging from manufacturing, information technology, renewable energy, steel, oil and gas, aquaculture to various other sectors. He has also provided his market research expertise to government agencies such as Malaysian Technology Development Corporation Sdn Bhd, Department of Fisheries Malaysia and Malaysian Green Technology Corporation.

Protégé Associates has prepared this report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a balanced, true 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.

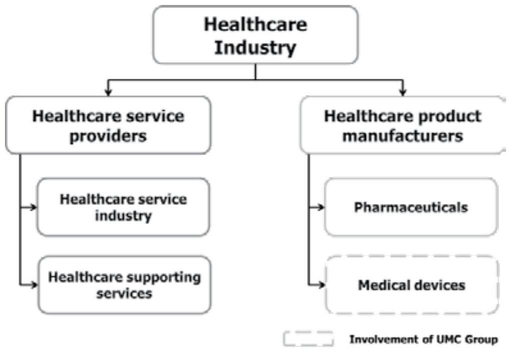
Thank you.

Yours sincerely,

Dr. Tan Chin How
Director

1.0 Overview of the Healthcare Industry

Figure 1: Segmentation of the Healthcare Industry



*Note: UMC and its subsidiaries ("**UMC Group**") are dependent on the healthcare service industry.*

Source: Protégé Associates

The healthcare industry consists of healthcare service providers and healthcare product manufacturers who are involved in facilitating the provision of healthcare to patients. Healthcare services refer to the provision of consultation, diagnosis, patient care and medication for the prevention and/or treatment of diseases, injuries, ailments as well as other physical and psychological health conditions. On the other hand, healthcare supporting services refer to the provision of support services such as management and medical record keeping to ensure that the healthcare facility can operate optimally. Healthcare service providers include hospitals, medical centres and clinics, amongst others.

Healthcare product manufacturers are businesses that manufacture pharmaceutical products and medical devices that are used during diagnosis and treatment of health conditions. Pharmaceutical products include prescription and over-the-counter ("**OTC**") drugs, health and food supplements and traditional and complementary medicines. Medical devices refer to any instrument, apparatus, implement, machine, appliance, implant and in-vitro reagent that is used for the purpose of diagnosing, preventing, monitoring, or treating diseases, injuries, ailments as well as other physical and psychological health conditions. Medical devices range from simple devices such as tongue depressors and walking aids to more complex devices such as defibrillators and pacemakers.

UMC Group is principally involved in the marketing and distribution of various branded medical devices and consumables as well as the provision of after-sales service for all its products. UMC Group is also involved in developing, manufacturing and marketing of its medical consumables. Its products are mainly sold to both private and public hospitals, other healthcare service providers such as medical centres and other healthcare-related facilities as well as non-medical business entities in both local and overseas markets. Accordingly, Protégé Associates will provide the analysis of the medical device industry in the sections below. Protégé Associates will also provide an overview of the healthcare service industry in Malaysia below as it is a key end-user of UMC Group's products.

1.1 Overview of the Healthcare Service Industry in Malaysia

Healthcare services refer to the provision of consultation, diagnosis, patient care and medication for the prevention and/or treatment of diseases, injuries, ailments as well as other physical and psychological health conditions. Healthcare services are provided by doctors and specialists, nurses and other healthcare professionals. The healthcare services provided can be categorised into different levels of care, as seen in the Figure 2 below.

Figure 2: Levels of Healthcare

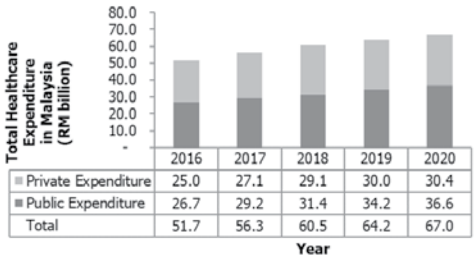
Level of care	Definition
Primary care	Primary care is the most basic type of care provided by healthcare professionals such as general practitioners, nurses or dentists to the public when they have a health problem. Primary care is usually provided on an outpatient basis in facilities such as clinics or pharmacies. The primary care provider may refer a patient to more specialised services, if required.
Secondary care	Secondary care refers to services provided by medical specialists who have more expertise in their specific field of medicine (e.g. oncologists for cancer and cardiologists for heart diseases etc.). Secondary care is usually provided in specialist clinics, hospitals and medical centres that have the relevant equipment to provide the necessary diagnosis and treatment. It can be provided in an outpatient or inpatient setting.

Level of care	Definition
Tertiary care	Tertiary care involves further specialised care that is usually carried out in an inpatient setting in specialised hospitals or medical centres. Healthcare professionals in tertiary care settings usually have access to more specialised devices and equipment to diagnose and treat their patients. Types of services in tertiary care include complex procedures such as coronary surgery, cancer care and neurosurgery.
Quaternary care	Quaternary care is considered to be an extension of tertiary care. It usually involves high-risk and complex surgeries such as organ transplants.

Source: Protégé Associates

The healthcare system in Malaysia is a two-tiered system, namely the public and private healthcare system. The public healthcare system is a government-led and tax-funded system that provides heavily-subsidised healthcare services for Malaysians. The private healthcare system is a fee-for-service system in which patients pay according to the healthcare services provided to them.

Figure 3: Total Healthcare Expenditure in Malaysia, 2016-2020



	2016	2017	2018	2019	2020
Private Expenditure	25.0	27.1	29.1	30.0	30.4
Public Expenditure	26.7	29.2	31.4	34.2	36.6
Total	51.7	56.3	60.5	64.2	67.0

*Source: Ministry of Health, Malaysia ("**MOH**")*

The total healthcare expenditure in Malaysia stood at RM67.0 billion in 2020, an increase of 4.4% from RM64.2 billion in 2019. Public healthcare system expenditure accounted for RM36.6 billion (54.6%) of the total healthcare expenditure while the private healthcare system accounted for RM30.4 billion (45.4%) in 2020. The total healthcare expenditure in Malaysia has shown an increasing trend from 2016 to 2020, growing by a compound annual growth rate ("**CAGR**") of 6.7% from RM51.7 billion in 2016 to RM67.0 billion in 2020. The growth was contributed by both public and private healthcare systems.

There has been an increase in the number of hospitals in Malaysia from 2016 to 2020. In 2016, there were 340 hospitals in Malaysia, of which 153 were public hospitals and 187 were private hospitals. In 2020, the total number of hospitals in Malaysia increased to 358, of which 156 were public hospitals and 202 were private hospitals.

The number of hospital beds in Malaysia has grown in tandem with the increased healthcare expenditure and number of hospitals. The figure below shows the number of hospital beds in Malaysia from 2016 to 2020. Despite the growing number of hospital beds from 2016 to 2020, the bed-to-total population ratio ("**BPR**") in Malaysia stood at 2.01 beds per 1,000 residents in 2020. Although Malaysia's BPR has increased, it is still low compared to that of other countries such as Germany (2019: 7.9), Japan (2019: 12.8), and Korea (2019: 12.4). This represents an opportunity for continued development in hospitals in Malaysia. In the Twelfth Malaysia Plan ("**12MP**") that was tabled by the Malaysian Government, the Government is targeting a BPR of 2.08 beds per 1,000 residents by 2025 as part of its efforts to enhance healthcare service delivery in Malaysia through construction of new hospitals or upgrading of existing hospitals and facilities. In addition to the 12MP, the Government plans to allocate RM32.4 billion in Budget 2022 to the MOH for operating and development expenditure to fight COVID-19 and improve the public healthcare system.

Figure 4: Number of Hospital Beds in Malaysia, 2016-2020

Year	Number of Hospital Beds (Units)				
	Public			Private	Total
	MOH Hospitals	MOH Special Medical Institutions[1]	Non-MOH Hospitals[2]	Hospitals	
2016	37,293	4,702	3,683	13,957	59,635
2017	37,470	4,832	3,892	14,799	60,993
2018	37,609	4,815	4,187	15,957	62,568
2019	38,131	4,805	4,052	16,469	63,457
2020	44,117	5,574	4,118	17,155	70,964

Notes:

[1] Includes rehabilitation hospital, women & children hospital, National Leprosy Control Centre, Institute of Respiratory Medicine, National Cancer Institute, and psychiatric institutions

[2] Includes army hospitals and university hospitals

Source: MOH

2.0 The Medical Device Industry in Malaysia

Medical devices refer to any instrument, apparatus, implement, machine, appliance, implant and in-vitro reagent that are used for the purpose of diagnosing, preventing, monitoring or treating diseases, injuries, ailments as well as other physical and psychological health conditions. Malaysia is considered to be a manufacturing hub for medical devices in the region and there are over 200 medical device manufacturers in the country, with around half of them producing medical gloves. Additionally, Malaysia is home to more than 30 multinational companies ("**MNCs**") who have set up their manufacturing operations in the country through their subsidiaries which include B. Braun Medical Industries Sdn Bhd ("**B. Braun**"), Boston Scientific Medical Device (Malaysia) Sdn Bhd ("**Boston Scientific**"), Abbott Medical (Malaysia) Sdn Bhd ("**Abbott Medical**") and Teleflex Medical Sdn Bhd. Local companies include Ain Medicare Sdn Bhd, Epsilon Medical Devices Sdn Bhd, Vigilenz Medical Devices Sdn Bhd and Ideal Healthcare Sdn Bhd.

Medical devices produced in Malaysia range from simple to complex products. The manufacturers of medical devices in Malaysia have gradually moved up the value chain. The country began as manufacturers of simpler medical devices such as rubber gloves and catheters and has begun making inroads into more sophisticated and complex medical devices such as implantable devices, imaging equipment and monitoring devices. Medical devices can be categorised into disposable products, surgical instruments, therapeutics and diagnostic equipment. Figure 5 below describes each category and provides examples of devices in each category.

Figure 5: Categories of Medical Devices

Category	Description and Examples of Devices
Disposable Products	Single-use products and consumables that usually require less medical expertise to produce. Products in this category include tongue depressors, bandages, gloves, catheters, prefilled humidifiers and prefilled nebulisers.
Surgical Instruments	Devices that are used to perform specific actions during surgical procedures. Products in this category include scalpels, scissors, forceps and clamps.
Therapeutics	Devices that are used to treat the patient's medical condition and may include implantable or non-implantable products. Products in this category include pacemakers and prosthetics.
Diagnostic Equipment	Medical devices used in patient monitoring, diagnosis and imaging. Products in this category include magnetic resonance imaging and computed tomography equipment, ultrasound machines and patient monitoring machines.
Others	Medical and surgical furniture such as hospital beds and patient trolleys.

Source: Protégé Associates

UMC Group is principally involved in the **marketing and distribution of various branded medical devices and consumables as well as the provision of after-sales service for all its products. UMC Group is also involved in developing, manufacturing and marketing of its medical consumables.** The category of medical devices that UMC Group distributes is diagnostic equipment such as patient monitors and ultrasound machines while the category of medical devices that UMC Group manufactures is disposal products such as prefilled humidifiers and prefilled nebulisers.

Medical devices in Malaysia are regulated by the Medical Device Authority, an agency under the MOH, to ensure the health and safety of the patients and users and to facilitate the trade of medical devices and the industry. Under the Medical Device Act 2012 (Act 737), any medical device is required to be registered before it can be imported, exported or placed on the market by manufacturers of medical devices in Malaysia or authorised representatives appointed by a manufacturer outside of Malaysia. In Malaysia, medical devices are classified into four (4) classes based on the risk associated with the devices. It uses a set of classification rules based on the device's intended use, the duration of use (transient, short-term, long-term), and where it is used on the body (non-invasive or invasive). This helps to safeguard the health and safety of the patients and users when utilising medical devices. Prior to registering a medical device, an establishment (i.e. manufacturer or authorised representative) must classify the device based on the classification rules. Figure 6 below shows the classification of medical devices, its risk level and examples of devices in each classification.

Figure 6: Classification of Medical Devices

Class	Risk Level	Device Examples
A	Low	Simple surgical instruments, tongue-depressor, examination light, oxygen mask, stethoscopes, walking aids, hospital beds, simple wound dressing.
B	Low-moderate	Hypodermic needles, suction equipment, aspirator, hearing aids, hydrogel dressings, x-ray films.

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Class	Risk Level	Device Examples
C	Moderate-high	Lung ventilator, orthopedic implants, baby incubator, deep wound dressing, defibrillator, radiological therapy equipment.
D	High	Pacemakers and their leads, implantable defibrillators, heart valves, inter-uterine contraceptive devices.

Source: Medical Device Authority

In spite of the Coronavirus Disease 2019 ("**COVID-19**") pandemic and its resulting economic impact, the medical device industry in Malaysia has continued to attract strong investment in 2021. The industry recorded investments worth RM7.7 billion across 38 projects in 2021, an increase of from RM6.1 billion across 51 projects in 2020 and RM4.0 billion across 31 projects in 2019. Of the RM7.7 billion invested in the industry in 2021, RM4.7 billion was invested in 22 new projects while the RM3.0 billion was invested into expansion and/or diversification projects. Domestic investment accounted for 61.0% of the total investment in 2021 while 39.0% was from foreign investment. A notable investment approved in 2021 was a new investment by Menicon Malaysia Sdn Bhd, a wholly-owned subsidiary of a Japanese company that is involved in developing and manufacturing contact lenses and lens care solutions.

Global Market for Malaysia's Medical Devices

Figure 7: Export Value of Malaysia's Medical Devices, 2018 - 2020

Year	2018	2019	2020
Export Value of Medical Devices (RM billion)	23.1	23.9	30.0

Source: Ministry of International Trade and Industry and Malaysia Investment Development Authority

The medical devices manufactured in Malaysia cater for both the domestic and global markets. As seen in Figure 7 Malaysia's export of medical devices has also shown growth from 2018 to 2020. Malaysia's export of medical devices expanded by 25.5% from RM23.9 billion in 2019 to RM30.0 billion in 2020 mainly driven by surgical and examination gloves. Major exports from Malaysia include surgical and examination gloves, medical instruments, catheters, syringes, needles and sutures as well as electro-medical equipment. Malaysia exports to a wide range of countries including Australia, Belgium, China, Singapore, and the United States of America. Going forward, the prospect and outlook of the global medical device industry remains positive and growth is anticipated to be driven by factors such as an ageing population, improving healthcare infrastructure worldwide as well as advancements in technology and digitalisation leading to more smart devices.

3.0 Strategic Analysis of the Medical Device Industry in Malaysia

3.1 Historical Market Performance and Growth Forecast

The historical performance and growth forecast of the medical device industry in Malaysia is based on a combination of resources including information from the Department of Statistics Malaysia ("**DOSM**") and Association of Malaysian Medical Industries as well as other secondary and primary research conducted. The market size of the medical device industry in Malaysia is derived from the aggregate consumption of medical devices (i.e. value of manufactured products and imported products net exported products). The findings are collated, analysed, and/or computed to ascertain the outlook of the medical device industry in Malaysia.

Figure 8: Historical Market Size (in terms of sales value) and Growth Forecast of the Medical Device Industry in Malaysia, 2019 - 2026f

Year	Market Size (RM billion)	Growth Rate (%)
2019	8.01	-
2020	10.09	26.0
2021e	12.11	20.0
2022f	13.97	15.4
2023f	15.79	13.0
2024f	17.53	11.0
2025f	19.46	11.0
2026f	21.41	10.0

CAGR (2021-2026) (base year of 2021) = 12.1%
Note: e denotes estimate, f denotes forecast

Source: Protégé Associates

The medical device industry in Malaysia registered a growth of 26.0% from RM8.01 billion in 2019 to RM10.09 billion in 2020 primarily driven by the COVID-19 pandemic. It is estimated that the industry will grow by 20.0% to reach RM12.11 billion in 2021. The COVID-19 pandemic has shown the need for medical devices to treat patients with COVID-19 as well as diagnosing and testing individuals who are suspected to have COVID-19. As an essential service, medical device manufacturers and traders have not had to cease their operations during the various lockdowns imposed by the Government of Malaysia ("**Government**") to curb the spread of the virus, and as such, the industry continued to operate to fulfil the demand for medical devices. The Government had allocated additional budget to increase the number of hospital and intensive care unit ("**ICU**") beds in assigned COVID-19 hospitals nationwide to treat patients with COVID-19. The Government has also had to procure additional medical devices that are used in the diagnosis and treatment of COVID-19 such as ventilators, X-ray machines, breathing apparatus and patient monitors.

In the immediate term (2022-2023), the industry is expected to continue to be driven primarily by the COVID-19 pandemic. Malaysia has fully-vaccinated more than 95% of its adult population, more than 90% of its adolescent (12 to 17 years old) population, and is currently vaccinating children between the ages of 5 and 11, which will ease the COVID-19 burden on the healthcare industry. Nevertheless, demand for healthcare services is expected to remain high due to the incidence of non-communicable diseases ("**NCDs**") in Malaysia. Additionally, there is likely to be pent-up demand from locals who previously postponed medical care such as elective surgeries during the COVID-19 pandemic. There is also expected to be demand from medical tourists as Malaysia has reopened its borders to tourists beginning 1 April 2022. Malaysia's growing and ageing population is also a factor in the increased demand for medical care. On the supply side, Malaysia's medical device industry is anticipated to grow as a result of the Government's support and continued investment from domestic and foreign medical device market players.

In the medium to long-term (2024-2026), the local medical device industry is expected to be boosted by the demand from the healthcare industry and the control of COVID-19. The Government will eventually shift its healthcare focus from containing the virus to improving the country's public healthcare system through building new healthcare facilities as well as upgrading existing facilities. Similarly, private healthcare providers are also anticipated to open new hospitals and expand the capacity of their existing hospitals. In addition, Malaysia's reopening of its borders are expected to boost the growth in healthcare tourism in Malaysia from the demand that was unfulfilled during the COVID-19 pandemic, thereby driving the growth in the healthcare industry and accordingly, the demand for medical devices. Growth during this period is also anticipated to be underpinned by the increasing ageing population in Malaysia who are more likely to require medical care. Furthermore, there is high incidence of NCDs and a rising obesity rate in the Malaysian population, which is also expected to facilitate demand for medical care. The medical device industry in Malaysia is projected to be robust in the long term and register a CAGR of 12.1% from RM12.11 billion in 2021 to RM21.41 billion in 2026.

3.2 Competitive Analysis

The medical device industry in Malaysia is fragmented in nature and consists of market players such as local manufacturers, subsidiaries of MNCs, as well as distributors. Local manufacturers of medical devices are involved in the design and development of medical devices. They may manufacture their own brand of medical devices or perform contract manufacturing activities for other brands. MNCs such as B. Braun and Boston Scientific have established operations in Malaysia. Some of the Malaysian subsidiaries of MNCs are also involved in manufacturing of medical devices while some are sales offices to distribute their own brand of products in the country. Distributors of medical devices usually distribute medical devices from third-party brands which may be local or foreign brands.

The market players may also be involved in manufacturing and distributing their own products, manufacturing their own products as well as distributing third-party products, or solely distributing third-party products. They may also manufacture or trade one type of medical devices or multiple types of medical devices. The market players may also be involved in business activities aside from the manufacturing and distribution of medical devices.

Some of the companies involved in the manufacturing and distribution of medical devices in Malaysia are as listed below:

- B. Braun
- Boston Scientific
- Diptech Industries Sdn Bhd
- Ideal Healthcare Sdn Bhd
- Prodelcon Sdn Bhd
- Straits Orthopaedics (Mfg) Sdn Bhd
- UMC Group
- Worldwide Medivest Sdn Bhd

Note:
The list of companies, in alphabetical order, is non-exhaustive and is used for illustration purposes only.

3.2.1 Comparable Market Players

UMC Group is principally involved in the **marketing and distribution of various branded medical devices and consumables as well as the provision of after-sales service for all its products** to healthcare service providers such as government hospitals, private hospitals, and other healthcare centres. **UMC Group is also involved in developing, manufacturing and marketing of its medical consumables.** For the financial year ended 31 July 2021, UMC Group recorded revenue of approximately RM34.1 million.

For comparison purposes, Protégé Associates has identified the industry players which are deemed to be similar to UMC Group in terms of revenue and principal activities of business entity. These industry players have been selected based on the following criteria:

- Involved in the marketing, distribution, or manufacturing of medical devices;
- Recorded revenue between RM15 million and RM45 million based on their respective latest publically available financial information.

Accordingly, Protégé Associates has selected Insan Damai Sdn Bhd, Schiller Asia Pacific Sdn Bhd, Stryker Corporation (Malaysia) Sdn Bhd, and Teepham Medical Sdn Bhd. It needs to be highlighted that the list of industry players used for comparison purpose is not exhaustive and only serves as a reference for readers.

Figure 9: Comparison between UMC Group and Selected Industry Players in the Medical Device Industry in Malaysia

Company	Principal Activities	Financial Year Ended	Revenue (RM'000)	Gross Profit (RM'000)	Gross Profit Margin[1] (%)	Profit/(Loss) before Taxation (RM'000)	Profit/ (Loss) after Taxation (RM'000)	Profit/ (Loss) before Taxation Margin[2] (%)	Profit/ (Loss) after Taxation Margin[3] (%)
UMC Group	Kindly refer to the paragraph above for the UMC Group's principal activities	31-Jul-21	34,116	12,563	36.8	6,554	5,087	19.2	14.9
Insan Damai Sdn Bhd	Trading in medical and surgical products	31-Dec-20	20,513	6,392	31.2	1,501	1,176	7.3	5.7
Schiller Asia Pacific Sdn. Bhd.[4]	Supplier of medical equipment. Servicing and repairing of medical equipment.	31-Dec-21	22,034	5,393	24.5	1,908	1,439	8.7	6.5
Stryker Corporation (Malaysia) Sdn Bhd[5]	Marketing and selling of medical equipment and medical devices	31-Dec-20	17,396	11,583	66.6	743	579	4.3	3.3
Teepham Medical Sdn Bhd	Manufacturer & distributor of medical equipment and disposables	31-Dec-20	18,459	5,727	31.0	915	689	5.0	3.7

Notes:
The above figures 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.
[1] Gross Profit Margin = Gross Profit / Revenue
[2] Profit before Taxation Margin = Profit before Taxation / Revenue
[3] Profit after Taxation Margin = Profit after Taxation / Revenue
[4] The company is a subsidiary of Schiller AG, a company headquartered in Switzerland involved in the manufacturing of medical devices.
[5] The company is a subsidiary of Stryker Corporation, an American company listed on the New York Stock Exchange involved in the manufacturing of medical devices.

Sources: UMC and Companies Commission of Malaysia

3.2.2 UMC Group's Market Share

For FYE 31 July 2021, UMC Group generated revenue of RM28.6 million from the sales of medical devices in Malaysia which is equivalent to approximately 0.2% share of the medical device industry in Malaysia during the year 2021. The market share is calculated based on UMC Group's revenue of RM28.6 million for FYE 31 July 2021 in Malaysia against the market size of the medical device industry in Malaysia of RM12.11 billion in 2021.

3.3 Demand Conditions

Figure 10: Demand Conditions Affecting the Medical Device Industry in Malaysia

Impact	Demand Condition	Short-Term	Medium-Term	Long-Term
		2022-2023	**2024-2025**	**2026**
+	Population growth and an ageing population	High	High	High
+	High incidence of NCDs	High	High	High
+	Increasing number of hospital admissions and attendances	High	High	High
+	On-going COVID-19 pandemic	Medium	Low	Low
+	Growing healthcare tourism in Malaysia	Low	Medium	High

Source: Protégé Associates

Population growth and an ageing population

An increasing population indicates a potential increase in demand for healthcare services. The Malaysian population stood at 32.7 million in 2021, compared to 32.6 million in 2020. The population is projected to grow to 41.5 million in 2040. In addition to its growing population, Malaysia's demographic also exhibits the trend of an ageing population. Demand for healthcare services is also expected to rise in tandem with an ageing population. In 2010, those aged over 65 years old made up 5.0% of a population of 28.6 million. In 2021, the age group made up 7.4% of a population of 32.7 million. By 2040, the age group is projected to make up 14.5% of a population of 41.5 million. The elderly is more likely to be susceptible to diseases, ailments and injuries in addition to age-related diseases, and as such are more likely to require medical care. Malaysia's steady population growth and the ageing population are therefore likely to drive the demand for healthcare services in the future, and drive the demand for medical devices in tandem.

High incidence of NCDs

NCDs refer to diseases that are not transmissible directly from one person to another and include diseases such as diabetes, hypertension (high blood pressure) and hypercholesterolemia (high blood cholesterol). The increasingly sedentary work environment along with lack of regular exercise, smoking and unhealthy diet has led to an increase in the three (3) aforementioned NCDs in Malaysia. According to the National Health and Morbidity Survey conducted in 2019, Malaysia continues to have high incidences of diabetes, hypertension, and hypercholesterolemia.

Figure 11: Prevalence of NCDs in Malaysia, 2011, 2015, and 2019

NCD	2011	2015	2019
	% of Adult Population		
Diabetes	11.1	13.4	18.3
Hypertension	32.6	30.3	30.0
Hypercholesterolemia	35.0	47.7	38.1

Source: MOH

The incidence of obesity has also increased from 2011 to 2019. In 2011, 15.1% of adults were obese compared to 17.7% in 2015 and 19.7% in 2019. The growing percentage of adults with obesity is concerning as it is an indicator of future increases in incidence of NCDs. The high incidence of the aforementioned NCDs and rising prevalence of obesity is likely to lead to an increased demand for healthcare services in the future, and accordingly increase demand for medical devices.

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Increasing number of hospital admissions and attendances

Figure 12: Attendances and Admissions in Hospitals in Malaysia, 2017 - 2020

Year	Outpatient attendances (million)	Admissions (million)
2017	27.2	3.6
2018	28.0	3.9
2019	28.1	4.1
2020	21.8	3.4

Note: Hospitals in Malaysia include MOH hospitals, MOH special medical institutions, non-MOH hospitals, and private hospitals. Source: MOH

There have been a greater number of attendances and admissions recorded in hospitals from 2017 to 2019. The overall growing number of outpatient attendances and admissions in hospitals shows that there are more people seeking medical attention. This represents a growing demand for medical services in Malaysia. However, due to the COVID-19 pandemic, many medical procedures were postponed as Malaysia's healthcare resources were focused on tackling the COVID-19 situation in the country. This led to a decrease in outpatient attendances and admissions in 2020 to 21.8 million and 3.4 million respectively. Nevertheless, with the country's COVID-19 under better control and adaption to the new normal, there is a need to clear the backlog of postponed medical procedures. In light of this, healthcare facilities are likely to continue upgrading and purchasing medical devices to provide adequate care for their patients. As such, the demand for medical devices is expected to be driven by the increasing number of individuals seeking medical attention.

On-going COVID-19 pandemic

The Malaysian health authorities began their planning and preparedness to combat the COVID-19 pandemic once several cases of an acute respiratory syndrome in Wuhan, China was reported in December 2019. Government hospitals started emptying hospitals and rerouting physicians to other hospitals to prepare for COVID-19 patients as well as undergo renovations to increase capacity. Additional government hospitals were re-categorised as full COVID-19 hospitals or hybrid hospitals to treat COVID-19 patients. The MOH also increased the number of ventilators available through procurement efforts and mobilisation of ventilators from private healthcare services. Private hospitals were then directed to allocate beds in wards and ICUs to treat COVID-19 patients. On top of the MOH budget allocation, the Government allocated a total of RM1.0 billion for fighting the COVID-19 pandemic, such as for purchasing medical devices including hospital beds. Subsequently in the Pemerkasa Plus stimulus package, a further RM450.0 million was allocated to increase the number of hospital and ICU beds for the treatment of COVID-19 in MOH hospitals and non-MOH public hospitals.

The COVID-19 pandemic has led to an increased demand in healthcare services, especially in treating COVID-19 patients. The country has since undergone multiple waves and the battle against the virus is on-going. There has been an increased demand for medical devices such as ventilators, flowmeters and pulse oximeters which are used in the treatment of COVID-19 patients. Aside from ventilators, oxygen therapy is also used for COVID-19 patients and this has led to an increased demand for consumables such as oxygen and prefilled humidifiers, which are used to humidify the gas for the patient to prevent the membrane in the nose and mouth from drying up and decreasing infection in the lungs.

Owing to the high vaccination rate and decreasing number of COVID-19 patients with severe stages of disease, there has been a decrease in utilisation rate of the COVID-19 allocated beds in wards and ICUs in hospitals across the nation as well as a decrease in the utilisation of ventilators. Nonetheless, Malaysia is still recording COVID-19 cases daily, with some patients requiring hospitalisation and assistance from ventilators. As such, demand for COVID-19 related products will drive the demand for medical devices in the short-term.

Growing healthcare tourism in Malaysia

Malaysia has been awarded the "Health and Medical Tourism: Destination of the Year" title by the International Medical Travel Journal (IMTJ) Medical Travel Awards four (4) times (2015, 2016, 2017, 2020). The number of healthcare travellers to Malaysia grew from 859,000 travellers in 2015 to 1,220,000 travellers in 2019 at a CAGR of 9.2%. The revenue generated by healthcare travellers has also increased in tandem from RM914.0 million in 2015 to RM1.7 billion in 2019 at a CAGR of 16.8%.

The Malaysian Healthcare Tourism Council ("**MHTC**") has actively promoted Malaysian healthcare services to consumers in countries such as Indonesia, China, and India through various campaigns. MHTC launched the Malaysia Year of Healthcare Travel 2020 campaign in 2019 in line with the Government's Visit Malaysia

2020 campaign. However, the COVID-19 pandemic and resulting border closures and restrictions on international travel have negatively affected healthcare tourism in Malaysia.

The MHTC has since developed a 5-year blueprint to chart out its recovery and rebuilding strategies to continue the development Malaysia's healthcare travel industry. The importance of healthcare tourism can also be seen from the allocation of RM20.0 million to the MHTC in the Budget 2022 to further promote Malaysia as a destination for healthcare tourism. Malaysia has since reopened its borders to tourists beginning 1 April 2022. This is likely to increase the demand for healthcare tourism and is likely to drive the demand for healthcare services, which will result in a growth for the medical device industry in the medium term and the long term.

3.4 Supply Conditions

Figure 13: Supply Conditions Affecting the Medical Device Industry in Malaysia, 2021-2026

Impact	Supply Condition	Short-Term	Medium-Term	Long-Term
		2022-2023	2024-2025	2026
+	Government support for the medical device industry	High	High	High
+	Continuous domestic and foreign investment in the medical device industry	High	High	High
+	Upgrading of existing and establishment of new healthcare facilities	Medium	Medium	Medium

Source: Protégé Associates

Government support for the medical device industry

The Government continues to support the medical device industry and had identified the medical device industry as a high-growth sub-sector under the Eleventh Malaysia Plan as it was expected to have a positive effect on the Malaysian economy. The Government's commitment to improving the industry can be seen in incentives for investment and tax allowances such as the incentives for manufacturing companies, incentives for high technology companies, reinvestment allowance, and automation capital allowance expenditure. These incentives have seen investment in the medical device industry grow year on year, from RM4.0 billion in 2019 and RM6.1 billion in 2020 to RM7.7 billion in 2021. The Government also collaborates with various entities to support the local medical device industry. The Human Resource Development Corporation ("**HRDC**"), an entity under the purview of the Ministry of Human Resources, Malaysia, has collaborated with the Association of Malaysian Medical Industries ("**AMMI**") to ensure a sufficient talent pool to support the growth of the Malaysian medical device industry. The AMMI is an association representing leading medical device manufacturing companies in the medical technology industry in Malaysia. It seeks to promote and strengthen manufacturing and services operational excellence in Malaysia through various strategic pillars which amongst others include talent development. The AMMI and the HRDC have collaborated to develop medtech certification programmes to raise the skills and knowledge of local employees. The support from the Government is expected to drive the growth of the Malaysian medical device industry during the forecast period from 2022 to 2026.

Continuous domestic and foreign investment in the medical device industry

From 2019 to 2021, the Malaysian medical device industry has seen strong investment through both domestic and foreign investment. In 2019, RM4.0 billion worth of investments were recorded, with foreign investment making up 76.4% of the total investment. In 2020, the total approved investment in the industry increased to RM6.1 billion, with the majority (64.1%) made up of domestic investment. In 2021, the industry recorded investments worth RM7.7 billion, an increase of 26.2% from RM6.1 billion in 2020, in spite of the COVID-19 pandemic and its economic impact. Domestic investment contributed RM4.7 billion while foreign investment contributed RM3.0 billion.

Foreign medical device companies have cited various factors such as the Government's support through business-friendly policies, availability of multilingual and skilled human resource, and strong infrastructure. Entry of foreign players in Malaysia does not only boost the supply of medical devices manufactured in Malaysia. It also encourages transfer of technology and knowledge to local talent who in the future may spearhead innovations in medtech. As such, the continuous investment will drive the medical device industry in Malaysia during the forecast period from 2022 to 2026.

Upgrading of existing and establishment of new healthcare facilities

In 2020, there were 156 public hospitals and 2,890 public health clinics in Malaysia. Under the Budget 2020, the Government has allocated funds for the upgrading and expansion of existing hospitals such as

Hospital Tengku Ampuan Rahimah in Klang, Hospital Labuan in Labuan, and the cardiology centre at Hospital Queen Elizabeth II in Sabah and the construction of new hospitals such as new hospital was slated for construction to replace the existing Kampar Hospital. Construction and upgrading of health clinics are planned for Sungai Petani, Kedah; Cameron Highlands, Pahang; Setiu, Terengganu; Kudat and Tawau in Sabah; and Long San and Sungai Simunjan in Sarawak.

In light of the COVID-19 pandemic, the plans have been suspended as resources were redirected to tackle the pandemic. Budget 2021 had also announced funds for the Malaysian healthcare system and is focused on expanding the healthcare industry to provide an effective national healthcare system. Funds have been allocated to build new hospitals and clinics, especially in small districts to ensure access to affordable healthcare. In addition, under the 12MP tabled by the Government, the Government is committed to improve the country's healthcare system by undertaking various measures such as establishing new hospitals or upgrading existing hospitals and facilities. In addition, aged healthcare equipment are to be repaired or replaced if obsolete, which should increase demand for medical devices throughout the duration of the 12MP. Meanwhile, the Budget 2022 also details budget allocations for the procurement of medical devices for military hospitals to combat against the COVID-19 pandemic.

In 2020, there were 202 private hospitals in Malaysia. Various private healthcare providers have announced plans for new private hospital development products through the forecast period. Major private healthcare providers such as IHH Healthcare Berhad, KPJ Healthcare Berhad, and Sunway Berhad have plans to construct and open new hospitals. Among those include KPJ Healthcare Berhad's Kinrara Health Centre and Damansara II Specialist Hospital, and Sunway Berhad's Seberang Jaya Medical Centre. The providers have also announced plans to expand the capacity of their existing hospitals.

Furthermore, in response to the COVID-19 pandemic, the Government had also upgraded and established healthcare facilities. The Government established a makeshift hospital and quarantine centre for COVID-19 patients in the Malaysia Agro Exposition Park in 2020 in preparation for the pandemic. Temporary hospitals such as army and field hospitals have been set up to treat patients with non COVID-19 related diseases and ailments to allow hospitals to focus on treating COVID-19 patients. The development of new and upgrading of existing healthcare facilities is expected to drive the demand for medical devices during the forecast period from 2022 to 2026.

4.0 Prospects and Outlook of the Medical Device Industry in Malaysia

The market size of the medical device industry in Malaysia was estimated at RM12.11 billion in 2021, increasing by 20.0% from RM10.09 billion in 2020 due to strong demand from the healthcare industry as a result of the COVID-19 pandemic. Going forward, the industry is expected to continue growing as a result of the demand from the healthcare industry along with support from the Government and continued domestic and foreign investments.

The medical device industry in Malaysia is expected to be driven by the on-going COVID-19 pandemic and the resulting demand for healthcare services, especially in the short term. Demand for medical devices is also anticipated to come from the increased need for healthcare services as a result of population growth and an ageing population, more people seeking medical care, and the increasing incidence of NCDs in the Malaysian population. In addition, Malaysia's borders has since reopened beginning 1 April 2022 and it is expected that healthcare tourism will return, which will lead to a demand for healthcare services and as such, the need for more medical devices.

On the supply side, the industry is likely to receive continued support from the Government through various incentives and tax allowances. The Government is also working together with the AMMI to ensure that Malaysia will continue to produce skilled and knowledgeable employees in the medical device industry. The AMMI is an association representing leading medical device manufacturing companies in the medical technology industry in Malaysia that seeks to promote and strengthen manufacturing and services operational excellence in Malaysia through various strategic pillars which includes talent development. The HRDC, an entity under the purview of the Ministry of Human Resources, Malaysia, has collaborated with the AMMI to develop medtech certification programmes to raise the skills and knowledge of local employees. Additionally, the upgrading of existing and establishment of new healthcare facilities that will require medical devices will help to drive the industry during the forecast period from 2022 to 2026. The industry will also be supported by domestic as well as foreign medical devices companies who continue to build new factories or expand their existing factories in Malaysia. Protégé Associates has forecasted the medical device industry in Malaysia to grow at a CAGR of 12.1% from RM12.11 billion in 2021 to RM21.41 billion in 2026.

8. RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS SET OUT BELOW ALONG WITH OTHER INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS BEFORE INVESTING IN OUR COMPANY.

8.1 RISKS RELATING TO OUR INDUSTRY

8.1.1 Our business is subject to changes in medical device technology

The medical device industry and its related technology are constantly developing and evolving. Advancements in technology could result in the introduction of new products, shorter product life cycles and price competition. Consequently, rapid changes in technology may render older devices obsolete.

For our manufacturing segment, our Group's future success will depend on our ability to anticipate technology development trends, and identify, develop and commercialise new products based on customers' needs and demands in a timely and cost-effective manner. As such, it is imperative that our Group keeps abreast with the latest technology trends, customers' needs and market demands to integrate into our R&D plans in order to develop and commercialise new products in a timely manner and at a competitive price.

For our marketing and distribution segment, our Group's exposure to the risk of changes in the medical device technology will depend on our ability to source medical devices with the latest technology from suppliers/principals on a timely basis to replace any products that are impacted by technological obsolescence. Although our Group's business is subject to changes in medical device technology, the development of new medical devices technology does not translate to an immediate phasing out of existing products and the inventory levels kept by our Group would not lead to obsolescence of the equipment.

8.1.2 We are dependent on both the local and overseas healthcare industry for our success and growth

We serve the healthcare industry as our end-users are mainly healthcare institutions in the public and private sectors as well as other healthcare-related facilities. The growth in the healthcare industry depends on various factors, particularly in the number of patient admissions (which are driven by factors such as a rise in incidences of chronic diseases, growing ageing population and increased accessibility to healthcare services due to growth in income and/or uptake of medical insurance), as well as the increase in public and private healthcare expenditure.

The public and private healthcare expenditure comprises healthcare services operational costs, capacity building and procurement of pharmaceuticals and medical supplies and equipment. Should there be any decrease or reduction in public and private healthcare expenditure, this may have an impact on the spending on hospital supplies and equipment and may also affect the business and financial performance of our Group. In private hospitals, the purchase of our products could be reduced due to lowering or tightening of hospital budgets. In addition, any cutbacks on public healthcare expenditure could also negatively impact the sales of our products.

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8.1.3 We operate in a competitive environment

We face competition from existing competitors both locally and overseas. The competition in the medical device industry is mainly on company recognition and loyalty, product price and quality, as well as the ability to identify and fulfil the latest industry needs. According to the IMR Report, the medical device industry in Malaysia is fragmented in nature and consists of market players such as local manufacturers, subsidiaries of MNCs, as well as distributors. Local manufacturers of medical devices are involved in the design and development of medical devices. They may manufacture their own brand of medical devices or perform contract manufacturing activities for other brands. Some of the Malaysian subsidiaries of MNCs are also involved in the manufacturing of medical devices while some others sales offices to distribute their own brand of products in the country. Distributors of medical devices usually distribute medical devices from third-party brands. These brands may be local or foreign brands. The market players may also be involved in manufacturing and distributing their own products, manufacturing their own products as well as distributing third-party products, or solely distributing third-party products. They may also manufacture or trade one type of medical device or multiple types of medical devices. The market players may also be involved in business activities aside from the manufacturing and distribution of medical devices. These market players may have greater financial resources, larger distribution networks, multiple product lines and/or resources available to them.

We could lose market share due to competitive pressure or other factors and this may necessitate us to increase our marketing expenses, lower the prices of our products and/or carry out discounts or promotional campaigns more frequently. Such measures could adversely affect our margins which may have an impact on our operating results and profitability. We strive to increase the level of our competitiveness to keep abreast or stay ahead of our competition. Our Group constantly strives to offer innovative and quality medical devices that are designed and developed to meet customers' specific needs and requirements.

However, there can be no assurance that our Group will be able to compete effectively with the existing and new competitors in the future, in light of the dynamic competitive market environment. If we are unable to remain competitive in the future, this may adversely affect our business and financial performance.

8.1.4 We are exposed to political, economic and regulatory risks in Malaysia and other countries in which we currently or may in the future operate and/or transact, as well as the occurrence of force majeure events

Our operations are primarily concentrated in Malaysia. Our local sales accounted for approximately 78.49%, 81.69%, 83.71% and 88.29% whilst our overseas sales accounted for approximately 21.51%, 18.31%, 16.29% and 11.71% of our Group's total revenue for the past three (3) FYEs 2019, 2020 and 2021 as well as FPE 2022 respectively. As we continue to expand our business globally, it is reasonable to expect that our financial performance and business prospects would be dependent on the political, economic and regulatory conditions in the countries that we participate in. Any adverse development or uncertainty in the political, economic and regulatory conditions in Malaysia and other countries could have an adverse impact on our business, financial condition and results of operations.

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Amongst the political, economic and regulatory uncertainties that may affect our operations are changes in the political leadership leading to unstable political situation, terrorism activities, changes in interest rates, fluctuation in currency exchange rates, changes in accounting and tax policies, as well as changes in government policies such as introduction of new regulations, import duties and tariffs. There can be no assurance that any adverse political, economic and regulatory changes which have not impacted our business in the past, will not materially affect our business in the future. The occurrence of other force majeure events which are beyond our control, whether globally or in Malaysia could also unfavourably affect our financial condition and business prospects.

8.2 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

8.2.1 We are dependent on our Executive Director/Chief Executive Officer and Key Senior Management for continued success

The continuing success of our Group is dependent, to a significant extent, on the efforts, commitment and abilities of our Executive Director/Chief Executive Officer and Key Senior Management who play a significant role in the day-to-day operations as well as implementation of our business strategies.

Our Executive Director/Chief Executive Officer, Lim Taw Seong, who individually has around 20 years of experience in the medical device industry. He has been actively involved in our Group's operations and is directly responsible for the strategic direction, leadership, business planning and development of our Group. He is supported by a team of qualified Key Senior Management, who have over the years gained a vast amount of experience, capability and knowledge in this respective fields of work. Together with our Executive Director/Chief Executive Officer, they play a critical role to our Group's success as well as formulating and implementing our business strategies to drive the future growth of our Group.

Further details on the experience of our Executive Director/Chief Executive Officer and Key Senior Management are set out in Sections 4.2.2 and 4.5.2 of this Prospectus.

Our success and future growth also depend on our ability to identify, hire, train and retain employees who are capable, skilled and qualified in performing their roles and responsibilities. The loss of our Executive Director/Chief Executive Officer and/or any of our Key Senior Management, without any suitable and prompt replacement may have a material adverse effect on our business, financial performance, operations and prospects.

8.2.2 Our business may be adversely affected if our licences, permits and approvals are revoked, suspended or not renewed

Our business operations require certain licences, permits and approvals to be obtained such as the establishment licence, medical device registration certificate and manufacturing licence from relevant regulatory authorities. In general, laws and regulations applicable to the healthcare industry have become more stringent with penalties and potential liabilities increasing over the years. These laws and regulations could change with the implementation of new laws and regulations or a change in the interpretation of existing laws and regulations could result in substantially similar risks. There is no assurance that our operations and business will not be affected by future legislatives or regulatory policy changes including the following:

(i) implementation of new laws, regulations and policies by the relevant authorities;

(ii) changes to current laws, regulations and policies; and/or

(iii) imposition of additional conditions to the existing approvals, licences, permits and certificates.

The validity of some of these licences, permits and approvals are subject to periodical renewal and compliance with the relevant requirements and conditions imposed by the relevant regulatory authorities. Further details of our major licences, permits and approvals are set out in Annexure B of this Prospectus.

As at the LPD, our Group has valid establishment licence, medical device registration certificate and manufacturing licence, and has complied with all the terms and conditions imposed. Further, there were no penalties, fines, criminal prosecution that imposed or initiated against our Group or our Directors and we have not experienced any difficulty in renewing and maintaining our licences, permits and approvals. However, there is no assurance that the relevant authorities will renew the same within the anticipated timeframe or at all, and/or without imposing any additional terms and conditions in the future, particularly when there are changes to any requirements, rules and regulations imposed by the relevant authorities.

The failure to comply with any of the terms and conditions imposed by the relevant authorities (whether due to our Group's past/future actions, activities or operations) can result in the approvals, licences, permits and certificates required for our operations being revoked, suspended or not renewed, which could have a material adverse effect on our business, financial performance, operations and prospects, as well as the possibility of penalties, fines, potential criminal prosecution being imposed/initiated against us and/or our Directors. In addition, if there are any changes imposed on the rules and regulations, standards of compliance or conditions imposed by the relevant regulatory authorities, we may incur additional costs to comply with such new or modified standards or conditions.

8.2.3 Our business is dependent on the successful development and commercialisation of new products

We are dependent on the successful development and commercialisation of new products to generate new revenue stream in the future. The development and commercialisation of future new products depends on several factors, including but not limited to, ability to secure working capital funding such as via bank borrowings for our product development on competitive terms, approval of the products from the relevant regulatory authorities and acceptance by customers of the benefit and safety of our new products. Failure in any of the abovementioned factors may impact our financial performance as the sales of the newly developed products may be insufficient to cover our R&D and marketing expenses. Currently, we have successfully developed and commercialised our own products, namely HydroX series prefilled humidifiers and AirdroX series inhaler spacers.

Our Group keeps abreast of the latest product developments and regulatory requirements to develop new products which are safe and cost competitive to achieve commercial success. There is no assurance that we can achieve any of the above factors and we may face significant delays or fail to successfully develop, obtain regulatory approval and commercialise new products in a timely manner or efficiently. In such event, we may not be able to generate new revenue streams that can further drive our business growth.

8.2.4 Our marketing and distribution segment depends on a stable source of supply and our business relationship with our suppliers/principals

Our marketing and distribution segment has contributed approximately 78.24%, 77.94%, 82.85% and 88.10% of our Group's total revenue for the past three (3) FYEs 2019, 2020 and 2021 as well as FPE 2022 respectively.

We source our medical devices and consumables from international medical devices suppliers/principals. From our first distributorship rights with Goldway (now known as Philips) in 2003, we have since then expanded to include Mindray (since 2019), GE (since 2019) and Merit (since 2019). As such, our medical devices and consumables under the marketing and distribution segment relies on sufficient and stable supply of medical devices and consumables from our suppliers/principals and any increase in the costs of such products, prolonged shortage of the required products, operational issues or financial constraints of our suppliers/principals to fulfil their obligations towards us, could impede our ability to meet our customers' needs for such products. This in turn could lead to loss of sales and could have an adverse effect on our business, financial performance, operations and prospects.

We maintain a list of reliable manufacturers from whom we can source suitable substitutes or replacement medical devices and consumables. These manufacturers carry a wide range of products which can be used as suitable substitutes or replacement medical devices and consumables. In the event of termination of any distributorship rights, we will be able to source suitable substitutes or replacements from these manufacturers. Notwithstanding the above, there is no assurance that our Group will be able to have a stable supply of such products in the future, thereby affecting our marketing and distribution segment and will have a material and adverse effect on our operations and financial performance.

8.2.5 Our performance is affected by adverse movements in foreign currency exchange

Our functional reporting currency is in RM. For FYEs 2019, 2020, 2021, FPEs 2021 and 2022, approximately 21.51%, 18.31%, 16.29%, 15.64% and 11.71% of our sales are transacted in foreign currencies, primarily in USD. In addition, our purchases are transacted in foreign currencies, the breakdown of which are as follows:

	Audited			Unaudited	Audited
	FYE 2019	FYE 2020	FYE 2021	FPE 2021	FPE 2022
	%	%	%	%	%
RM	67.21	84.96	54.50	65.86	43.86
USD	28.29	13.90	41.82	27.78	54.73
Euro	4.50	1.13	1.72	2.03	1.06
SGD	-	-	0.97	2.18	-
CNY	-	0.01	0.99	2.15	0.35
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

As such, we are exposed to adverse movements in foreign currency exchange which are influenced by various factors that are beyond our control, including but not limited to, the political and economic climate in Malaysia and other countries. In such a situation, there is a possibility that we could incur foreign exchange losses.

Certain foreign currency transactions that our Group enters into provide a natural hedge against foreign currency fluctuations, for example, when our sales and purchases are both denominated in USD. We try to minimise our exposure to foreign currency fluctuations by maintaining the receipt from overseas customers in a foreign currency account for payment to overseas suppliers. Nonetheless, a depreciation of RM against foreign currencies can affect our cost of sales and reduce our profit margin. On the other hand, an appreciation of RM against foreign currencies will render our products less price competitive.

8.2.6 We are exposed to product liability claims

The product warranty for our distribution products is provided by our Group's suppliers/principals and we do not provide any product warranty to our customers. Generally, the distributorship agreements with our suppliers/principals have a clause to warrant on the product quality by the suppliers/principals and/or to hold our Group harmless against any manufacturing defects. As such, we are not liable for any product liability. However, as we are involved in the process of installing and commissioning of the distribution products, we could be exposed to product liability claims made by our customers if the products that we distribute are found to be unsafe, defective or contaminated as a result of our Group's installation and commissioning process.

Our Group does not provide any product warranty for our manufactured products to our customers/distributors. Our HydroX series prefilled humidifiers and AirdroX series inhaler spacers are medical consumables and classified as Class B (low-moderate risk) and Class A (low risk) respectively and it is not a requirement for the manufacturer to buy any product liability insurance for the medical devices to be registered with MDA. There is no known industry practice regarding the purchase of product liability insurance. Companies are required to purchase product liability insurance if this is mandated by regulations or when tendering for projects which specify such a requirement. Otherwise, the decision to purchase product liability insurance is subject to the respective companies' risk assessment.

Any defect or contamination of the products distributed and manufactured by our Group, whether actual or alleged, deliberate or accidental, could adversely affect our business operations, damage our reputation and/or suspend our operating/manufacturing licences. While we have not experienced any product liability claims in the past, there is no assurance that we will not be exposed to any product liability claims in the future, which could adversely impact our financial results, branding and reputation in the market.

8.2.7 Our business is subject to freight disruptions and fluctuations in freight rates

We are reliant on marine and air freight for our supplies as well as transportation of products to our customers. Hence, we are exposed to shipping and freight disruptions that may arise in the event of, amongst others, adverse weather conditions, political turmoil, pirate attacks, social unrest, port strikes, oil spills, delayed or lost shipments, which in turn may have an adverse impact on our business operations. In addition, any major fluctuation in shipping and freight rates may have a substantial impact on our cost and our gross profit margins if we are unable to pass on such increase in costs to our customers by raising selling prices.

In the first (1st) half of 2020, the COVID-19 pandemic has led to lockdowns and tighter border controls were enforced as an effort to contain the spread of the COVID-19 pandemic, which led to suspension of economic activities in various countries. The lower economic activities have resulted in reduced demand for shipping and freight activities, with carriers having reduced their freight capacities. During the first (1st) half of 2020, we experienced temporary disruptions due to the logistics flow as a result of border closure in Malaysia. This had resulted in delays of up to two (2) weeks in our delivery schedule to both local and overseas customers.

Subsequently, as economic activities slowly resumed to normal, shipping and freight rates began to rise due to a temporary mismatch between supply capacity and an increasing demand for shipping and freight services. While our Group has yet to experience any major shipping and freight disruption or any major increase in shipping and freight rates, but there can be no assurance that the COVID-19 pandemic can be contained in the near term and not worsen in the future and which can consequently lead to higher shipping and freight rates, while the occurrence of which could in turn, adversely impact our business, financial condition and results of operations. Please refer to Section 6.19 of this Prospectus for further details on impact of COVID-19 pandemic on our Group.

8.2.8 There is no assurance that our insurance coverage is adequate

We are subject to risks such as fire, flood, accidents as well as public liability. As such, we have purchased insurance policies which include fire and burglary insurance, equipment insurance, group personal accident, public liability insurance, trade credit insurance and all risk insurance, to provide coverage against any unforeseen events. All these insurance policies are subject to exclusions and limitations of liability in both amount and with respect to the insured events. The total insurance coverage by each type of insurance policies taken by our Group are as follows:

Type of insurance	Coverage amount (RM'000)
Fire and burglary	37,866
Equipment insurance	5,296
Group Personal Accident	3,857
Trade credit	6,000
Public liability insurance	1,000
All Risk	610

For the past three (3) FYEs 2019, 2020 and 2021 and up to the LPD, we did not make any insurance claim under our insurance policies. Whilst we have taken the necessary steps to ensure that our insurance coverage is adequate for our operations and assets, it may not be adequate to fully compensate for the loss that we may suffer in the future. If we suffer losses that exceed the coverage provided by the insurance policies, it could have an adverse impact on our business, financial condition and results of operations.

8.2.9 We are subject to the credit risks of our customers

Our financial performance and position are dependent, to a certain extent, on the creditworthiness of our customers. If circumstances arise that affect our customer's ability or willingness to pay us, we may experience payment delays or in more severe cases, we may not be able to collect payment from our customers. Accordingly, we would have to make provisions for doubtful debts, or incur debt write-offs, which may have an adverse impact on our profitability.

At present, the credit terms granted to our customers range from 30 to 90 days. Our trade receivables turnover period for the past three (3) FYEs 2019, 2020 and 2021 were 60 days, 59 days and 102 days respectively. The trade receivables turnover period were within the normal credit terms granted to our customers in the FYEs 2019 and 2020 but was higher than the normal credit terms granted to our customers in the FYE 2021. Our trade receivables turnover period for FPE 2022 reduced to approximately 35 days which was within normal credit term granted to our customers. In addition, the normal credit term granted to us by our suppliers/principals typically ranges from 30 days to 90 days. Our trade payables turnover period for the past three (3) FYEs 2019, 2020 and 2021 were 18 days, 39 days and 62 days respectively. Our trade payables turnover period decreased to approximately 20 days for FPE 2022. As such, any delay in collection of payments owed by our customers may impact our operating cash flow and liquidity.

As part of our credit control policy, we closely monitor our trade receivables ageing report and assess the collectability of trade receivables on an individual customer basis regularly. For any trade receivables which have exceeded the normal credit period granted, we will follow up with calls, send reminders and examine the delay in payment with relevant parties. We may also stop supplying products to them, where necessary. Our Group also assesses whether any of the trade receivables are credit impaired and review our customers' credit term on a quarterly basis based on the operating performance of our customers, changes in contractual terms, payment trends and past due information.

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

8.3 RISKS RELATING TO OUR SHARES AND OUR LISTING

8.3.1 There may not be an active or liquid market for our Shares

Prior to our Listing, there has been no prior public market for our Shares. Hence, we cannot assure you that upon our Listing, an active market for our Shares will develop, or if developed, such a market can be sustained.

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

Notwithstanding that the IPO Price was determined after taking into consideration of various factors such as our financial and operating history and our business strategies, we cannot assure you that the IPO Price will correspond to the price at which our Shares will trade on the ACE Market upon our Listing and that the market price of our Shares will not decline below the IPO Price.

8.3.2 The trading price and trading volume of our Shares may be volatile

Economic, political conditions and growth potential of the various sectors of the economy as well as external factors such as the performance of regional and global stock exchanges and the inflow or outflow of foreign fund contributes to the volatility of trading volumes on Bursa Securities and this adds risks to the volatility of the market price of our Shares. The market price of our Shares may fluctuate significantly and rapidly due to, amongst others, the following factors, some of which are beyond our control:

(i) general operational and business risks of our Group;

(ii) variations in our financial results and operations;

(iii) success or failure of our Executive Director and Key Senior Management in implementing business and growth strategies;

(iv) additions or departures of our Key Senior Management;

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

(vi) changes in market valuations of listed shares in general or share prices of companies with similar businesses to our Group;

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

(viii) fluctuation in stock market prices and volume;

(ix) changes in government policy, legislation or regulation; and/or

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

Accordingly, there is no assurance that the market price of our Shares will not be subject to volatility or trade at prices below the IPO Price.

8.3.3 The interest of our Promoters who control our Company may not be aligned with the interest of our shareholders

Our Promoters will collectively hold an aggregate 250,885,642 Shares, representing approximately 67.11% of our enlarged number of issued Shares upon our Listing. As a result, they will be able to effectively control the business direction and management of our Group including the election of Directors, the timing and payment of dividends as well as having substantial voting control over our Group. As such, our Promoters will likely influence the outcome of certain matters requiring the vote of our shareholders, unless they and persons connected with them are required to abstain from voting either by law, relevant guidelines or regulations. Therefore, there is a risk of non-alignment of interests by our Promoters with those of our other shareholders.

8.3.4 There may be a delay in or termination of our Listing

Our Listing could be delayed or terminated due to the possible occurrences of certain events, which include the following:

(i) our Sole Underwriter exercises its rights under the Underwriting Agreement or our Sole Placement Agent exercises its rights under the Placement Agreement (if any) to discharge itself from its obligations thereunder;

(ii) we are unable to meet the public shareholding spread requirement under the Listing Requirements of having at least 25% of our enlarged number of issued Shares for which our Listing is sought being on the hands of at least 200 public shareholders holding not less than 100 Shares each at the point of our Listing; and/or

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

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

(a) the SC issues a stop order under Section 245(1) of the CMSA, the applications for our IPO Shares shall be deemed to be withdrawn and cancelled and we shall repay all monies paid without interest in respect of the applications for our IPO Shares within 14 days of the stop order, failing which we shall be liable to return such monies with interest at the rate of 10% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(a) of the CMSA; or

(b) our Listing is aborted other than pursuant to a stop order by the SC under Section 245(1) of the CMSA, investors will not receive any IPO Share, and all monies paid in respect of all applications for our IPO Shares will be refunded free of interest within 14 days.

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

(1) the SC issues a stop order under Section 245(1) of the CMSA, the issue of our IPO Shares shall be deemed to be void and all monies received from the applicants shall be forthwith repaid without interest and if any such money is not repaid within 14 days of the date of service of the stop order, we shall be liable to return such monies with interest at the rate of 10% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA; or

8. RISK FACTORS *(CONT'D)*

(2) our Listing is aborted other than pursuant to a stop order by the SC under Section 245(1) of the CMSA, a return of monies to our shareholders could only be achieved by way of a cancellation of our share capital as provided under the Act and its related rules. Such cancellation can be implemented by the sanction of our shareholders by way of special resolution in a general meeting and supported by either (aa) consent by our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of the High Court of Malaya, in which case there can be no assurance that such monies can be returned within a short period of time or at all under such circumstance; or (bb) a solvency statement from our Directors.

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9. RELATED PARTY TRANSACTIONS

9.1 RELATED PARTY TRANSACTIONS

9.1.1 Material related party transactions

Save for the Acquisitions and as disclosed below, there are no other material related party transactions entered or to be entered into by our Group for the Financial Years Under Review and FPE 2022 as well as for the period from 1 February 2022 up to the LPD:

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 2022 RM'000	From 1 February 2022 up to the LPD RM'000)
1.	**Purchaser** Meditech[(i)] **Vendor** UMediC	Dato' Ng Chai Eng is our Promoter, Non-Independent Non-Executive Chairman and major shareholder and he is also the director and major shareholder of Meditech. Lim Taw Seong is our Promoter, Executive Director/ Chief Executive Officer and major shareholder and he is also the director and major shareholder of Meditech. Lau Chee Kheong is our Promoter, Non-Independent Non-Executive Director and major shareholder and he is also the director and major shareholder of Meditech.	Sale of medical consumables and spare parts as well as provision of technical service.	188 (1.14% of our Group's revenue)	131 (0.55% of our Group's revenue)	187 (0.55% of our Group's revenue)	37 (0.10% of our Group's revenue)	-

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

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value				
				FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 2022 RM'000	From 1 February 2022 up to the LPD RM'000)
2.	**Landlord** Atnesis Sdn Bhd ("**ASB**") **Tenant** UWHM	Dato' Ng Chai Eng is our Promoter, Non-Independent Non-Executive Chairman and major shareholder. He is also the director and major shareholder of ASB. Lau Chee Kheong is our Promoter, Non-Independent Non-Executive Director and major shareholder. He is also the director and major shareholder of ASB.	Rental of factory and provision of hostel accommodation for our employees via monthly tenancy arrangement. This tenancy arrangement ended on 15 March 2021 upon UWHM moving to our new head office in Batu Kawan, Penang.	126 (1.18% of our Group's cost of sales)	128 (0.79% of our Group's cost of sales)	81 (0.38% of our Group's cost of sales)	-	-
3.	**Purchaser** ASB(ii) **Vendor** UWHM	Dato' Ng Chai Eng is our Promoter, Non-Independent Non-Executive Chairman and major shareholder. He is also the director and major shareholder of ASB. Lau Chee Kheong is our Promoter, Non-Independent Non-Executive Director and major shareholder. He is also the director and major shareholder of ASB.	Sale of medical consumables such as sanitizers and disinfectants for their office internal use.	-	2 (0.01% of our Group's revenue)	6 (0.02% of our Group's revenue)	3 (0.01% of our Group's revenue)	-

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

				Transaction value				
No.	**Transacting parties**	**Nature of relationship**	**Nature of transaction**	**FYE 2019 RM'000**	**FYE 2020 RM'000**	**FYE 2021 RM'000**	**FPE 2022 RM'000**	**From 1 February 2022 up to the LPD RM'000)**
4.	**Purchaser** UMediC **Vendor** UWC Holdings Sdn Bhd ("**UWC Holdings**")[(iii)]	Dato' Ng Chai Eng is our Promoter, Non-Independent Non-Executive Chairman and major shareholder. He is also the director and major shareholder of UWC Berhad, which is the holding company of UWC Holdings. Lau Chee Kheong is our Promoter, Non-Independent Non-Executive Director and major shareholder. He is also the director and major shareholder of UWC Berhad, which is the holding company of UWC Holdings.	Purchase of sheet metal and precision machined parts.	12 (0.11% of our Group's cost of sales)	-	-	-	-

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

No.	Transacting parties	Nature of relationship	Nature of transaction	Transaction value FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 2022 RM'000	From 1 February 2022 up to the LPD RM'000)
5.	**Landlord** Empayar Stabil Sdn Bhd ("**Empayar**") **Tenant** UMediC	Khoo Quee See, who is a director and major shareholder of Empayar, is a person connected with Dato' Ng Chai Eng, our Promoter, Non-Independent Non-Executive Chairman and major shareholder. Khoo Quee See is the spouse of Dato' Ng Chai Eng. Lim Lee Oh, who is a director and major shareholder of Empayar, is a person connected with Lau Chee Kheong, our Promoter, Non-Independent Non-Executive Director and major shareholder. Lim Lee Oh is the spouse of Lau Chee Kheong.	Rental of factory via monthly tenancy arrangement. This tenancy arrangement ended on 31 October 2020.	70 (1.84% of our Group's administrative and other expenses)	70 (1.66% of our Group's administrative and other expenses)	9 (0.16% of our Group's administrative and other expenses)	-	-

Notes:

(i) As at the LPD, Dato' Ng Chai Eng, Lim Taw Seong and Lau Chee Kheong are no longer a director and shareholder of Meditech. For information purposes, Dato' Ng Chai Eng, Lim Taw Seong and Lau Chee Kheong ceased to be the directors of Meditech on 22 September 2021 and ceased to be the shareholders of Meditech on 30 September 2021.

(ii) As at the LPD, ASB is no longer our customer. There are no business transactions between ASB and our Group since September 2021 and there will be none moving forward.

(iii) As at the LPD, UWC Holdings is no longer our supplier. There are no business transactions between UWC Holdings and our Group since March 2019 and there will be none moving forward.

Our Directors confirm that the above related party transactions were carried out on an arm's length basis and on normal commercial terms which were not detrimental to our Group nor our minority shareholders.

Our Directors also confirm that there are no other material related party transactions that have been effected after the LPD or entered by our Group but not yet effected up to the date of this Prospectus. Further, the above related party transactions are not expected to recur after our Listing.

After our Listing, we will also be required to seek our shareholders' approval each time we enter into a material related party transaction in accordance with the Listing Requirements. However, if the related party transactions are deemed as recurrent related party transactions, we may seek a general mandate from our shareholders to enter into these transactions without having to seek separate shareholders' approval each time we wish to enter into such related party transactions during the validity period of the mandate.

9.1.2 Related party transactions entered into that are unusual in their nature or condition

Our Group has not entered into any transactions that are unusual in their nature or condition, involving goods, services, tangible or intangible assets, with a related party for the Financial Years Under Review and FPE 2022 as well as for the period from 1 February 2022 up to the LPD.

9.1.3 Loans made to or for the benefit of a related party

Our Group has not granted any loan to or for the benefit of a related party that is material to our Group for the Financial Years Under Review and FPE 2022 as well as for the period from 1 February 2022 up to the LPD.

9.1.4 Financial assistance provided for the benefit of a related party

Our Group has not provided any financial assistance for the benefit of a related party for the Financial Years Under Review and FPE 2022 as well as for the period from 1 February 2022 up to the LPD.

9.1.5 Personal guarantee

Dato' Ng Chai Eng, Lau Chee Kheong, Lim Taw Seong and Ng Chin Aik had extended personal guarantees for banking facilities granted to our Group, of which further details are set out below:

Details	Name of parties	Amount guaranteed RM'000
Hong Leong Bank Berhad for facilities granted to UMediC consisting fixed term loans, letters of credit, trust receipt, bankers' acceptance and bank guarantee	• Dato' Ng Chai Eng • Lau Chee Kheong • Lim Taw Seong	17,000

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

Details	Name of parties	Amount guaranteed RM'000
Hong Leong Bank Berhad for facilities granted to UWHM consisting fixed term loans, letters of credit, trust receipt, bankers' acceptance and bank guarantee	• Dato' Ng Chai Eng • Lau Chee Kheong • Lim Taw Seong • Ng Chin Aik	9,400
HSBC Bank (M) Berhad for facilities granted to UMediC consisting bank guarantees and import/export lines	• Dato' Ng Chai Eng • Lau Chee Kheong • Lim Taw Seong	6,500
Hitachi Capital Malaysia Sdn Bhd for hire purchase granted to UWHM	• Dato' Ng Chai Eng • Lau Chee Kheong • Lim Taw Seong • Ng Chin Aik	937
BMW Credit Malaysia Sdn Bhd for hire purchase granted to UWHM	• Dato' Ng Chai Eng • Lau Chee Kheong • Lim Taw Seong • Ng Chin Aik	592

In conjunction with our Listing, our Group has obtained the conditional consents from the financial institutions to discharge the above personal guarantees by substituting the same with a corporate guarantee from our Company upon our successful listing.

9.1.6 Advances made by a related party

During the Financial Years Under Review and FPE 2022, the Promoters, substantial shareholders and Directors made the following advances to the Group:

	FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 2022 RM'000
Dato' Ng Chai Eng	3,626	2,016	-	-
Lim Taw Seong	294	324	-	-
Lau Chee Kheong	2,485	942	-	-

As at the LPD, the advances above have been fully settled.

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9.2 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS

9.2.1 Audit and Risk Management Committee's review

Our Audit and Risk Management Committee reviews related party transactions and conflict of interest situations that may arise within our Group including any transaction, procedure or course of conduct that raises questions of management's integrity.

Our Audit and Risk Management Committee maintains and periodically reviews the adequacy of the procedures and processes set by our Company to monitor related party transactions and conflict of interest. It also sets the procedures and processes to ensure that transactions are carried out in the best interest of our Company, on an arm's length basis and are based on normal commercial terms which are not more favourable to the related party than those generally available to third parties, and are not detrimental to our minority shareholders. Amongst others, the related parties who are in a position of conflict with the interest of our Group will be required to abstain from deliberations and/or votings on the transactions.

All reviews by our Audit and Risk Management Committee are reported to our Board for its further action.

9.2.2 Our Group's policy on related party transactions

Related party transactions by their very nature, involve conflict of interest between our Group and the related parties with whom our Group has entered into such transactions. As disclosed in this Prospectus, some of our Directors and/or major shareholders are also directors and in some cases, shareholders of the related parties of our Group, and with respect to these related party transactions, may individually and in aggregate have conflict of interest. It is the policy of our Group that all related party transactions must be reviewed by our Audit and Risk Management Committee to ensure that they are negotiated and agreed upon in the best interest of our Company, on an arm's length basis and are based on normal commercial terms which are not more favourable to the related party than those generally available to third parties, and are not detrimental to our minority shareholders.

In addition, we plan to adopt a comprehensive corporate governance framework that meets best practice principles to mitigate any potential conflict of interest situation and this framework will comply with the Listing Requirements and adhere to the best extent possible with the guidance principles set out in the Malaysian Code on Corporate Governance. The procedures which may form part of this framework include the requirement of our Directors to declare any direct or indirect interest that they may have in any business arrangement, whether or not they believe it is a material transaction. Upon such disclosure, the interested Director shall be required to abstain from deliberation and voting on any resolution related to the related party transaction. All existing or potential related party transactions would also be required to be disclosed by the interested party for management reporting. Our management will then propose the transactions to our Audit and Risk Management Committee for evaluation and assessment which would in turn, make the appropriate recommendations to our Board.

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10. CONFLICT OF INTEREST

10.1 INTEREST IN BUSINESSES AND CORPORATIONS WHICH CARRY ON A SIMILAR TRADE AS THAT OF OUR GROUP OR WHICH ARE OUR CUSTOMERS OR SUPPLIERS

As at the LPD, save as disclosed below, none of our Directors and substantial shareholders have any interest, direct or indirect, in other businesses or corporations which are carrying on a similar trade as that of our Group, or which are the customers or suppliers of our Group:

(i) Dr Pakirisamy Baskaran A/L P Thangavelu

No.	Company	Principal activity	Nature of interest	Nature of conflict
1.	Sunray Medical Sdn Bhd	Export and import of medical diagnostic preparation	Dr Pakirisamy Baskaran A/L P Thangavelu is one of the shareholders of Sunray Medical Sdn Bhd (with 50% equity interest)[(a)].	Sunray Medical Sdn Bhd is carrying on a similar trade as that of our Group.

Note:

(a) The remaining 50% equity interest in Sunray Medical Sdn Bhd is held by another individual, who is not a person connected with our Directors, Promoters and substantial shareholders.

As at the LPD, Sunray Medical Sdn Bhd had only sold 10 units of a single type of fetal monitoring device to private standalone general practitioner clinics, that provide fetal monitoring services, since the incorporation of Sunray Medical Sdn Bhd in 2016. Sunray Medical Sdn Bhd does not have a marketing team and sells the fetal monitoring devices only upon request from its customers.

In contrast, our Group markets and distributes various medical devices and consumables from Philips, Mindray, GE and Merit, with different specifications from Sunray Medical Sdn Bhd, to a wide range of customers. Please refer to Sections 6.3.1 and 6.5.3 of this Prospectus for further details on our principal products and category of our customers.

Dr Pakirisamy Baskaran A/L P Thangavelu was previously a director of Sunray Medical Sdn Bhd and was not involved in the day-to-day operations of Sunray Medical Sdn Bhd. Further, Dr Pakirisamy Baskaran A/L P Thangavelu had on 15 February 2022 resigned from his position as a director of Sunray Medical Sdn Bhd.

Further, the involvement and interests of Dr Pakirisamy Baskaran A/L P Thangavelu in UMC is that of an Independent Non-Executive Director and he is not involved in the day-to-day management of our Group.

As such, our Board is of the view that the involvement and interests of our Director, as described above, do not give rise to any existing and potential conflict of interest situation.

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10.2 DECLARATION BY ADVISERS ON CONFLICT OF INTEREST

10.2.1 Affin Hwang IB

Affin Hwang IB confirms that there is no situation of conflict of interest that exists or is likely to exist in its capacity as the Principal Adviser, Sponsor, Sole Placement Agent and Sole Underwriter for our IPO.

10.2.2 BDO PLT

BDO PLT confirms that there is no situation of conflict of interest that exists or is likely to exist in its capacity as the Auditors and Reporting Accountants for our IPO.

10.2.3 Wong Beh & Toh

Wong Beh & Toh confirms that there is no situation of conflict of interest that exists or is likely to exist in its capacity as the Solicitors for our IPO.

10.2.4 Protégé

Protégé confirms that there is no situation of conflict of interest that exists or is likely to exist in its capacity as the Independent Market Researcher for our IPO.

10.2.5 Share Registrar

Boardroom Share Registrars Sdn Bhd confirms that there is no situation of conflict of interest that exists or is likely to exist in its capacity as the Share Registrar for our IPO.

10.2.6 Issuing house

Malaysian Issuing House Sdn Bhd confirms that there is no situation of conflict of interest that exists or is likely to exist in its capacity as the Issuing House for our IPO.

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11. FINANCIAL INFORMATION

11.1 HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated under the Act on 22 April 2021. On 28 September 2021, we completed the Acquisitions which resulted in Actimed, Evo Medik, U Medihealth, UMediC, UWHC and UWHM becoming our wholly-owned subsidiaries. As such, the financial statements of our Group comprise:

(i) the combined statements of financial position as at 31 July 2019, 2020 and 2021;

(ii) the consolidated statement of financial position as at 31 January 2022;

(iii) the combined statements of profit or loss and other comprehensive income for FYEs 2019, 2020 and 2021;

(iv) the consolidated statement of profit or loss and other comprehensive income for FPE 2022;

(v) the combined statements of changes in equity for FYEs 2019, 2020 and 2021;

(vi) the consolidated statement of changes in equity for FPE 2022;

(vii) the combined statements of cash flows for FYEs 2019, 2020 and 2021; and

(viii) the consolidated statement of cash flows for FPE 2022;

The historical combined financial statements for FYEs 2019, 2020 and 2021 as well as consolidated financial statements for FPE 2022 were prepared as if our Group structure had been in existence throughout the Financial Years Under Review and Financial Periods Under Review. All intra-group transactions and balances have been eliminated on combination and consolidation.

The historical financial information presented below should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" as set out in Section 11.3 of this Prospectus and the Accountants' Report, together with its accompanying notes as set out in Section 12 of this Prospectus.

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11. FINANCIAL INFORMATION *(CONT'D)*

11.1.1 Historical statements of profit or loss and other comprehensive income of our Group

The table below sets out the statements of profit or loss and other comprehensive income of our Group for the financial years indicated:

	Audited			Unaudited	Audited
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2021**	**FPE 2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	16,422	23,676	34,116	14,154	36,855
Cost of sales	(10,719)	(16,242)	(21,553)	(8,724)	(23,944)
GP	5,703	7,434	12,563	5,430	12,911
Other income	362	[(i)]723	606	259	[(i)]282
Marketing expenses	(461)	(449)	(265)	(132)	(391)
Administrative and other expenses	[(ii)](3,808)	(4,217)	[(ii)](5,619)	(2,602)	(5,623)
Finance costs	(163)	(445)	(731)	(330)	(467)
Share of loss of an associate, net of tax	(16)	(3)	-	-	-
PBT	1,617	3,043	6,554	2,625	6,712
Taxation	(298)	(624)	(1,467)	(470)	(2,140)
PAT	**1,319**	**2,419**	**5,087**	**2,155**	**4,572**
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive income attributable to common controlling shareholders of the combining entities	1,319	2,419	5,087	2,155	4,572
GP margin[(iii)] (%)	34.73	31.40	36.82	38.36	35.03
EBITDA[(iv)] (RM'000)	2,081	4,154	8,096	3,340	7,945
EBITDA margin[(v)] (%)	12.67	17.55	23.73	23.60	21.56
PBT margin[(vi)] (%)	9.85	12.85	19.21	18.55	18.21
PAT margin[(vii)] (%)	8.03	10.22	14.91	15.23	12.41
Basic and diluted EPS[(viii)] (sen)	0.35	0.65	1.36	0.58	1.22

Notes:

(i) Included net gains on impairment of financial assets of approximately RM0.08 million and RM0.01 million for FYE 2020 and FPE 2022.

(ii) Included net losses on impairment of financial assets of approximately RM0.16 million and RM1,325 for FYE 2019 and FYE 2021 respectively.

(iii) GP margin is computed based on GP divided by revenue.

(iv) EBITDA is computed as follows:

		Audited			Unaudited	Audited
		FYE 2019	FYE 2020	FYE 2021	FPE 2021	FPE 2022
		RM'000	RM'000	RM'000	RM'000	RM'000
PAT		1,319	2,419	5,087	2,155	4,572
Add:	Taxation	298	624	1,467	470	2,140
	Finance costs	163	445	731	330	467
	Depreciation and amortisation	332	698	848	406	815
Less:	Interest income	(31)	(32)	(37)	(21)	(49)
EBITDA		**2,081**	**4,154**	**8,096**	**3,340**	**7,945**

(v) EBITDA margin is computed based on EBITDA divided by revenue.

(vi) PBT margin is computed based on PBT divided by revenue.

(vii) PAT margin is computed based on PAT divided by revenue.

(viii) For comparative purposes, the basic EPS is computed based on the PAT divided by the enlarged number of issued Shares of 373,910,000 Shares after our IPO. For information purposes, the diluted EPS is equal to the basic EPS as there were no potential dilutive securities in issue during the respective Financial Years Under Review and Financial Periods Under Review.

11.1.2 Selected historical statements of financial position of our Group

The table below sets out selected financial information from the statements of financial position of our Group as at the end of the financial years and financial periods indicated:

	Audited			Unaudited	Audited
	As at 31 July			As at 31 January	
	2019	2020	2021	2021	2022
	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS					
Non-current assets					
Property, plant and equipment	1,321	7,123	20,332	16,679	20,150
Rights-of-use assets	5,586	6,017	6,275	5,878	6,187
Investment in an associate	53	-	-	-	-
	6,960	13,140	26,607	22,557	26,337
Current assets					
Inventories	3,708	5,590	10,116	8,523	8,603
Trade receivables	2,685	3,827	9,516	2,428	6,930
Other receivables	617	3,731	550	1,889	908
Current tax assets	117	90	376	43	513
Cash and bank balances	1,535	3,501	2,761	1,378	5,609
	8,662	16,739	23,319	14,261	22,563
TOTAL ASSETS	**15,662**	**29,879**	**49,926**	**36,818**	**48,900**

11. FINANCIAL INFORMATION *(CONT'D)*

	Audited			Unaudited	Audited
	As at 31 July			As at 31 January	
	2019	2020	2021	2021	2022
	RM'000	RM'000	RM'000	RM'000	RM'000
EQUITY AND LIABILITIES					
Equity attributable to the owners of parent/ common controlling shareholders of the combining entities					
Share capital/invested equity	2,687	2,888	6,908	3,687	13,834
Reserves	2,591	3,744	8,831	5,900	6,476
TOTAL EQUITY	**5,278**	**6,632**	**15,739**	**9,587**	**20,310**
LIABILITIES					
Non-current liabilities					
Borrowings	1,638	10,186	14,156	13,038	13,498
Lease liabilities	224	512	828	512	688
Government grant	-	-	135	135	442
Deferred tax liabilities	89	30	131	29	114
	1,951	10,728	15,250	13,714	14,742
Current liabilities					
Trade payables	542	1,745	3,643	3,909	2,643
Other payables	7,530	4,862	3,580	2,130	2,972
Borrowings	107	5,378	11,033	6,942	5,700
Lease liabilities	204	364	312	302	319
Government grant	-	-	15	15	50
Current tax liabilities	10	170	354	219	2,164
	8,393	12,519	18,937	13,517	13,848
TOTAL LIABILITIES	**10,344**	**23,247**	**34,187**	**27,231**	**28,590**
TOTAL EQUITY AND LIABILITIES	**15,622**	**29,879**	**49,926**	**36,818**	**48,900**

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11.2 CAPITALISATION AND INDEBTEDNESS

The table below sets out our Group's capitalisation and indebtedness as at 31 May 2022 and the pro forma capitalisation and indebtedness of our Group which has been prepared on the assumption that our IPO and the use of proceeds to be raised from our IPO had occurred on 31 May 2022:

	Unaudited as at 31 May 2022 RM'000	**After our IPO and use of proceeds RM'000**
Indebtedness:		
Current		
Secured and guaranteed		
- Bankers' acceptance	4,450	4,450
- Term loans	1,753	1,563
Secured and unguaranteed		
- Lease liabilities	300	81
Unsecured and unguaranteed		
- Lease liabilities	40	40
Non-current		
Secured and guaranteed		
- Term loans	13,279	5,269
Secured and unguaranteed		
- Lease liabilities	581	-
Unsecured and unguaranteed		
- Lease liabilities	22	22
Total indebtedness	**20,425**	**11,425**
Total equity	**21,644**	**51,221**
Total capitalisation and indebtedness	**42,069**	**62,646**
Gearing ratio(i) (times)	0.94	0.22

Note:

(i) Gearing ratio is computed based on total indebtedness divided by total equity.

The above pro forma capitalisation and indebtedness of our Group is provided for illustrative purposes only and does not represent our actual capitalisation and indebtedness as at 31 May 2022 or in the future.

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

The following management's discussion and analysis in respect of the financial condition and results of operations of our Group for the Financial Years Under Review and Financial Periods Under Review should be read in conjunction with the Accountants Report together with its accompanying notes as set out in Section 12 of this Prospectus.

The discussion and analysis contain data derived from our audited combined and consolidated financial statements as well as forward-looking statements that involve risks, uncertainties and assumptions. The actual results may differ significantly from those projected in the forward-looking statements. The factors that may cause future results to differ significantly from those included in the forward-looking statements include, but not limited to, those discussed below and elsewhere in this Prospectus, particularly the risk factors as set out in Section 8 of this Prospectus.

There are no accounting policies which are peculiar to our Group. For further information on the significant accounting policies of our Group, please refer to Section 7 of the Accountants' Report included in Section 12 of this Prospectus.

11.3.1 Overview of our operations

We are an investment holding company. Through our subsidiaries, we are principally involved in following business segments:

(i) Marketing and distribution segment

We market and distribute various branded medical devices and consumables. We are the authorised distributor of multiple established, international medical device companies. We also market various types of medical furniture, including medical beds and carts. We engage third-party contract manufacturers for the manufacturing of this medical furniture.

We distribute and supply locally to both the public and private hospitals, and other healthcare service providers such as medical centres and other healthcare-related facilities, as well as non-medical business entities.

In addition, we also provide the after-sales service which include maintenance services and technical support, sale of spare parts as well as training on equipment.

(ii) Manufacturing segment

We develop and manufacture our own medical consumables, namely HydroX series prefilled humidifiers.

In FYE 2020, due to the COVID-19 pandemic, we saw an opportunity to leverage on our existing facilities to manufacture sanitizers and disinfectants. In addition, we also developed our AirdroX series inhaler spacers in FYE 2020 and have subsequently commercialised in June 2022.

Other than FYE 2020, the GP and GP margin for manufacturing segment generally ranged from approximately RM0.26 million to RM1.38 million and approximately 7% to 23% respectively for the Financial Years/Periods Under Review. The GP and GP margin for manufacturing segment for FYE 2020 was approximately RM0.04 million and 0.69% respectively and was mainly due to higher costs incurred during FYE 2020. Please refer to Section 11.3.3(ii)(c) of the Prospectus for further details.

Moving forward, we intend to expand our manufacturing segment and also to develop and commercialise more products under our own brand. We have identified the new products to be developed and commercialised based on our assessment of the market demands and the opportunities available. At the same time, the new products will also complement and add to our list of own brand product offerings, and it can be cross-marketed to our existing clientele.

We target to commercialise several new products in the next two (2) years, namely (a) sterile water for inhalation; (b) prefilled nebulisers; (c) digital oxygen flowmeters; and (d) humidifier humidity sensors. Please refer to Section 6.6.3 of this Prospectus for further details on these new products.

Please refer to Section 6 of this Prospectus for further information on our Group's business overview.

11.3.2 Significant factors affecting our financial condition and results of operations

Our financial condition and results of operations have been and are expected to be affected by, amongst others, the following factors:

(i) We operate in a competitive environment

We face competition from existing market players both locally and overseas. The competition from medical device industry is mainly on company recognition and loyalty, product price and quality, as well as the ability to identify and fulfil the latest industry needs. According to IMR Report, the medical device industry in Malaysia is fragmented in nature and consists of market players such as local manufacturers, subsidiaries of MNCs as well as distributors. The market players may also be involved in manufacturing and distributing their own products, manufacturing their own products as well as distributing third-party products or solely distributing third-party products. These market players may have greater financial resources, larger distribution networks, multiple product lines and/or resources available to them. As such, we face stiff competition among local and overseas market players, and our financial condition and results of operations would depend on our ability to continue competing effectively against other market players.

Please also refer to Section 8.1.3 for further details on the risk factor relating to our Group operating in a competitive environment.

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(ii) Availability and volatility of prices of our distribution products and raw materials

For our marketing and distribution segment, the cost of distribution products is the only component of our cost of sales for the Financial Years Under Review and Financial Periods Under Review. Our Group also relies on a steady supply of the distribution products from our suppliers/principals at reasonable costs to us. Hence, any price fluctuations in the distribution products could result in increased cost of sales, thus affecting our financial performance should we fail to pass the increase in cost to our customers. Please also refer to Section 8.2.4 for further details on the risk factor relating to our marketing and distribution segment depends on a stable source of supply and our business relationship with our suppliers/principals.

For our manufacturing segment, the raw materials used is the main component of our cost of sales for the Financial Years Under Review and Financial Periods Under Review. The key raw materials needed for our manufacturing segment include plastic resin, packaging materials and injection components. Plastic resin is a commodity whose price is affected by, amongst others, overall economic performance, demand, production capacity and supply.

As such, our profitability is significantly dependent on and will continue to depend on the availability of distribution products and raw materials as well as the prices of these goods.

(iii) Our business is subject to or reliant on licences, permits and approvals issued by the relevant Malaysian authorities

As an authorised distributor or a manufacturer of medical devices and consumables, we are bound by the federal, state and local laws and rules and regulations set by the relevant Malaysian authorities, such as the MDA. Our operations/products are reliant on certain regulatory licences, permits and approvals granted by the relevant authorities and registration with MDA. The validity of some of these licences, permits and approvals are subject to periodical renewal and compliance with the relevant requirements and regulations imposed by the MDA and/or other relevant authorities.

In the event we are unable to comply with any of the terms and conditions imposed by the relevant authorities, the licences, permits and approvals may be revoked, suspended or not renewed, which could have a material adverse effect on our business operation and financial performance. In addition, the relevant authorities may also impose penalties or fines against us and/or our Directors.

Please also refer to Section 8.2.2 for further details on the risk factor relating to our business may be adversely affected if our licences, permits and approvals are revoked, suspended or not renewed.

(iv) Impact of fluctuation in foreign exchange, interest rate, inflation and government/economic/fiscal/monetary policies

Please refer to Section 11.3.4 of this Prospectus for further information on the impact of fluctuation in foreign exchange, interest rate, inflation and government/ economic/fiscal/monetary policies.

Please also refer to Section 8.1.4 for further details on the risk factor relating to political, economic and regulatory risks in Malaysia and other countries and Section 8.2.5 for further details on the risk factor relating to adverse movements in foreign currency exchange on our performance.

11.3.3 Results of operations

The components of our Group's statements of profit or loss and other comprehensive income as well as the analysis of the results of operations of our Group for the Financial Years Under Review and Financial Periods Under Review are as follows:

(i) Revenue

Our primary source of revenue is derived from the marketing and distribution segment where we market and distribute various medical devices and consumables from multiple established, international medical device companies. Our distribution products mainly comprise of patient monitors, defibrillators/AEDs, ventilators, cardiotocography and ultrasound machines.

We also develop, manufacture and market our own medical consumables, namely HydroX series prefilled humidifiers. In FYE 2020, due to the COVID-19 pandemic, we saw an opportunity to leverage on our existing facilities to manufacture sanitizers and disinfectants. We also sold the prototype of AirdroX series inhaler spacers that we manufactured and have subsequently commercialised AirdroX series inhaler spacers in June 2022.

To complement our range of product offerings, we also engage third-party contract manufacturers to manufacture and market various types of medical furniture, including medical beds and carts.

In addition, we also provide after-sales service to our customers. Our after-sales service includes maintenance services and technical support, sale of spare parts as well as training on equipment. Most of our after-sales service are provided based on maintenance service agreements entered into between our Group and our customers upon expiry of the warranty period. We also provide maintenance services and technical support and/or sell spare parts to our customers as and when it is needed and without any agreement signed.

Our revenue is recognised upon delivery to and acceptance of our products and services by our customers. During the Financial Years Under Review and Financial Periods Under Review, our revenue is derived from both local and overseas markets. The majority of our sales are derived from local market. Our sales are mainly denominated in RM and USD. For FYEs 2019, 2020, 2021, FPEs 2021 and 2022, approximately 78.49%, 81.69%, 83.71%, 84.36% and 88.29% of our Group's total revenue were denominated in RM respectively.

We do not practise any fixed pricing policy. For the marketing and distribution segment, the selling price of our medical devices and consumables is fixed by our Group. The selling prices of our products and services are determined and negotiated on a case-to-case basis and may vary according to various factors such as, amongst others, volume of order, raw material prices, as well as competitiveness of the pricing to attract new customers or to retain existing customers.

(a) Revenue by business segments

The table below sets out our Group's revenue by business segments for the Financial Years Under Review and Financial Periods Under Review:

	Audited						Unaudited		Audited	
	FYE 2019		FYE 2020		FYE 2021		FPE 2021		FPE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Marketing and distribution										
Medical devices	7,893	48.06	14,805	62.53	23,921	70.12	9,950	70.30	30,249	82.08
Medical consumables	2,928	17.83	2,636	11.13	2,745	8.04	1,331	9.40	1,564	4.24
Others[(i)]	2,028	12.35	1,012	4.28	1,600	4.69	599	4.23	656	1.78
	12,849	78.24	18,453	77.94	28,266	82.85	11,880	83.93	32,469	88.10
Manufacturing										
Medical consumables[(ii)]	3,573	21.76	5,223	22.06	5,850	17.15	2,274	16.07	4,386	11.90
Total	**16,422**	**100.00**	**23,676**	**100.00**	**34,116**	**100.00**	**14,154**	**100.00**	**36,855**	**100.00**

Notes:

(i) Comprises maintenance services and technical support, sale of spare parts as well as training on equipment.

The breakdown of our revenue for maintenance services and technical support, sale of spare parts as well as training on equipment is as follows:

	FYE 2019	FYE2020	FYE 2021	FPE 2021	FPE 2022
	RM'000	RM'000	RM'000	RM'000	RM'000
Maintenance services and technical support	536	150	588	198	82
Sale of spare parts	710	756	928	363	557
Training on equipment	782	106	84	38	17
Total	**2,028**	**1,012**	**1,600**	**599**	**656**

(ii) The breakdown of the medical consumables under our manufacturing segment for the Financial Years Under Review and Financial Periods Under Review is as follows:

	FYE 2019	FYE 2020	FYE 2021	FPE 2021	FPE 2022
	RM'000	RM'000	RM'000	RM'000	RM'000
Prefilled humidifiers	3,573	4,329	5,574	2,183	4,226
Sanitizers and disinfectants	-	839	192	41	52
Prototype of AirdroX series inhaler spacers	-	55	84	50	108
Total	**3,573**	**5,223**	**5,850**	**2,274**	**4,386**

Our Group's revenue is mainly derived from marketing and distribution segment which contributed approximately 78.24%, 77.94%, 82.85%, 83.93% and 88.10% of our Group's total revenue for FYEs 2019, 2020, 2021, FPEs 2021 and 2022 respectively. Our distributed medical devices mainly comprise of patient monitors, defibrillators/AEDs, ventilators, cardiotocography, ultrasound machines and medical furniture whereas our distributed medical consumables mainly comprise of disposable breathing circuits, bacteria filters, heat and moisture exchangers, non-invasive ventilation masks, high flow nasal cannulas, pressure transducer kit, arterial cannulations, arterial blood sampling systems and central venous catheters.

Over the years, our Group has evolved from being involved in marketing and distribution of medical devices and consumables only, to performing R&D and product development as well as manufacturing of our own brand medical consumables, namely HydroX series prefilled humidifiers. In June 2022, we have also commercialised our AirdroX series inhaler spacers. Our Group's revenue from manufacturing segment has been increasing from approximately RM3.57 million for FYE 2019 to approximately RM5.85 million for FYE 2021. Further, our Group's revenue from manufacturing segment was approximately RM4.39 million for six (6) month period for FPE 2022.

In addition, our revenue from "Others" segment is dependent on the level of after-sales service provided to our customers such as maintenance services and technical support, sale of spare parts as well as training on equipment.

(b) Revenue by geographical markets

The table below sets out our Group's revenue by geographical markets for the Financial Years Under Review and Financial Periods Under Review:

	Audited						Unaudited		Audited	
	FYE 2019		FYE 2020		FYE 2021		FPE 2021		FPE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Local	12,890	78.49	19,341	81.69	28,560	83.71	11,940	84.36	32,540	88.29
Overseas										
Asia Pacific[(i)]	2,192	13.35	3,098	13.08	3,417	10.02	1,470	10.39	3,179	8.63
Americas[(ii)]	493	3.00	571	2.41	773	2.27	123	0.87	395	1.07
Europe[(iii)]	430	2.62	352	1.49	876	2.57	415	2.93	558	1.51
Middle East[(iv)]	331	2.02	247	1.04	298	0.87	125	0.88	-	-
Africa[(v)]	86	0.52	67	0.29	192	0.56	81	0.57	94	0.26
Oceania[(vi)]	-	-	-	-	-	-	-	-	89	0.24
	3,532	21.51	4,335	18.31	5,556	16.29	2,214	15.64	4,315	11.71
Total	**16,422**	**100.00**	**23,676**	**100.00**	**34,116**	**100.00**	**14,154**	**100.00**	**36,855**	**100.00**

Notes:

(i) Comprises countries such as Brunei, India, Indonesia, Jordan, Myanmar, Philippines, South Korea and Thailand.

(ii) Comprises countries such as Ecuador and Chile.

(iii) Comprises countries such as Romania and the Czech Republic.

(iv) Comprises countries such as Saudi Arabia and the United Arab Emirates.

(v) Comprises countries such as South Africa.

(vi) Comprises countries such as Australia.

Malaysia was the main revenue contributor to our Group for the Financial Years Under Review and Financial Periods Under Review, contributing approximately 78.49%, 81.69%, 83.71%, 84.36% and 88.29% of our Group's total revenue for FYEs 2019, 2020, 2021, FPEs 2021 and 2022 respectively. The revenue contribution from Malaysia was mainly derived from our marketing and distribution of medical devices and consumables.

The revenue contribution from overseas market to our Group has been increasing from FYE 2019 to FYE 2021 and six (6) month period for FPE 2022. The revenue contribution from overseas market was derived from our manufacturing segment.

The geographical profile of our Group's revenue contribution varies from year to year according to demand and location of the existing and new customers secured by our Group in a particular year.

(c) Commentaries on revenue:

FYE 2019 as compared to FYE 2020

Our Group's revenue increased by approximately RM7.25 million or 44.17% from approximately RM16.42 million for FYE 2019 to approximately RM23.68 million for FYE 2020.

The increase in our Group's revenue was mainly due to an increase in revenue from marketing and distribution segment by approximately RM5.60 million or 43.61% from approximately RM12.85 million for FYE 2019 to approximately RM18.45 million for FYE 2020.

The increase in revenue from marketing and distribution segment was mainly attributable to the increase of approximately RM6.91 million in sales of medical devices, in particular patient monitors, defibrillators/AEDs, ultrasound machines and ventilators to both public and private hospitals as well as healthcare service providers. The increase in sales of medical devices was mainly due to these medical devices being replaced (i.e. when they reached the end of their life cycle) and higher allocations being given to certain public hospitals to purchase new medical devices. In addition, we also secured new orders during the year through our expanded product offerings such as ventilators, maternal and infant care products, ultrasound machines, SunLife Science branded electric-powered 3D chest compressors.

However, the increase was partially offset by the decrease in revenue from "Others" segment of approximately RM1.02 million. This was mainly due to lesser training conducted by us during the year as our customers have been focusing their expenditure on COVID-19 related medical devices and supplies since the outbreak of COVID-19.

In addition, there was also a decrease in revenue from the sales of medical consumables of approximately RM0.29 million. This was mainly due to lower selling prices for certain of our medical consumables used for medical devices such as patient monitors/MRI-compatible patient monitors and defibrillators as these medical consumables were sold together with certain of our sales for medical devices in order to gain market share.

In addition, the revenue from manufacturing segment also increased by approximately RM1.65 million. This was mainly attributable to the increase in sales of HydroX series prefilled humidifiers, sanitizers and disinfectants as there was a surge in orders from our customers due to the COVID-19 pandemic. We also sold the prototype of AirdroX series inhaler spacers during the year.

By geographical location, in line with the above increase in revenue from marketing and distribution segment derived from local market, our Group's local market contribution increased by approximately RM6.45 million or 50.05% from approximately RM12.89 million for FYE 2019 to approximately RM19.34 million for FYE 2020.

Our Group's revenue derived from overseas market also increased by approximately RM0.80 million or 22.73% from approximately RM3.53 million for FYE 2019 to approximately RM4.34 million for FYE 2020. This was mainly due to the increase in sales of HydroX series prefilled humidifiers from customers in South Korea, Thailand and Indonesia. However, the increase was partially offset by decrease in sales of HydroX series prefilled humidifiers of approximately RM0.18 million from customers in Romania, the Czech Republic, Saudi Arabia and South Africa.

FYE 2020 as compared to FYE 2021

Our Group's revenue increased by approximately RM10.44 million or 44.10% from approximately RM23.68 million for FYE 2020 to approximately RM34.12 million for FYE 2021.

The increase in our Group's revenue was mainly due to an increase in revenue from marketing and distribution segment by approximately RM9.81 million or 53.18% from approximately RM18.45 million for FYE 2020 to approximately RM28.27 million for FYE 2021.

The increase in revenue from marketing and distribution segment was mainly attributable to the increase of approximately RM9.12 million in sales of medical devices, in particular ventilators, patient monitors, defibrillators/AEDs, mechanical cardiopulmonary resuscitation (CPR) devices and ultrasound machines to both public and private hospitals as well as healthcare service providers as these medical devices were used to treat COVID-19 patients. Although the COVID-19 pandemic was one of the contributing factors, this was not the only reason as the revenue contribution was also due to these medical devices being replaced (i.e. when they reached the end of their life cycle) or upgraded (i.e. when higher specification medical devices were required). There was also an increase in sales from private organisations where they donated these medical devices to public and private hospitals as part of their companies' corporate social responsibility project. In addition, we also received orders amounting to approximately RM0.51 million from a newly opened private hospital in Port Dickson as well as a private hospital which expanded its operations during the year.

The revenue from "Others" segment also increased by approximately RM0.59 million. This was mainly due to more service maintenance requests from customers for medical devices on an ad-hoc basis and this was partially offset by fewer virtual trainings requested as part of the service agreements entered with our customers during the year.

In addition, there was also an increase in revenue from our sales of medical consumables of approximately RM0.11 million. This was mainly due to the increase in orders for certain of our medical consumables used for medical devices such as patient monitors/MRI-compatible patient monitors and defibrillators.

In addition, the revenue from manufacturing segment also increased by approximately RM0.63 million. This was mainly attributable to the increase in sales of HydroX series prefilled humidifiers, due to higher demand from our customers to increase their inventory levels in order to minimise possible supply disruptions during the COVID-19 pandemic.

By geographical location, in line with the above increase in revenue from marketing and distribution segment derived from local market, our Group's local market contribution increased by approximately RM9.22 million or 47.67% from approximately RM19.34 million for FYE 2020 to approximately RM28.56 million for FYE 2021.

Our Group's revenue derived from overseas market also increased by approximately RM1.22 million or 28.17% from approximately RM4.34 million for FYE 2020 to approximately RM5.56 million for FYE 2021. This was mainly due to the increase in sales of HydroX series prefilled humidifiers from customers in South Korea, Thailand and Ecuador. We generally keep a certain level of inventory in order to shorten lead time for delivery of products to our overseas customers.

FPE 2021 as compared to FPE 2022

Our Group's revenue increased by approximately RM22.70 million or 160.39% from approximately RM14.15 million for FPE 2021 to approximately RM36.86 million for FPE 2022.

The increase in our Group's revenue was mainly due to an increase in revenue from marketing and distribution segment by approximately RM20.59 million or 173.31% from approximately RM11.88 million for FPE 2021 to approximately RM32.47 million for FPE 2022.

The increase in revenue from marketing and distribution segment was mainly attributable to the increase of approximately RM20.30 million in sales of medical devices, in particular ventilators, patient monitors, defibrillators/AEDs and ultrasound machines to both public and private hospitals as well as healthcare service providers. The sales of medical devices during this period increased due to upgrading and expansion of healthcare facilities such as additional orders amounting to approximately RM0.21 million from a private hospital which expanded its operations in FYE 2021. In addition, the COVID-19 pandemic was also one of the contributing factors as the number of COVID-19 patients ventilated and in ICU was higher in FPE 2022 as compared to the previous period.

There was also an increase in revenue from our sales of medical consumables of approximately RM0.23 million. This was mainly due to the increase in orders for certain of our medical consumables used for medical devices such as patient monitors/MRI-compatible patient monitors and defibrillators.

In addition, the revenue from "Others" segment also increased by approximately RM0.06 million. This was mainly due to an increase in sales of spare parts and this was partially offset by lesser service maintenance requests from our customers for medical devices on an ad-hoc basis and fewer trainings requested as part of the service agreements entered with our customers during the period.

In addition, the revenue from manufacturing segment also increased by approximately RM2.11 million as our Group managed to sell more HydroX series prefilled humidifiers during FPE 2022 due to higher demand from our customers to increase their inventory levels in order to minimise any possible supply disruptions.

By geographical location, in line with the above increase in revenue from marketing and distribution segment derived from local market, our Group's local market contribution increased by approximately RM20.60 million or 172.53% from approximately RM11.94 million for FPE 2021 to approximately RM32.54 million for FPE 2022.

Our Group's revenue derived from overseas market also increased by approximately RM2.10 million or 94.90% from approximately RM2.21 million for FPE 2021 to approximately RM4.32 million for FPE 2022. This was mainly due to the increase in sales of HydroX series prefilled humidifiers from customers in Thailand, Indonesia and South Korea. We generally keep a certain level of inventory in order to shorten lead time for delivery of products to our overseas customers.

(ii) Cost of sales

Our Group's cost of sales comprises distribution product costs, raw material costs, labour costs and production overheads.

Our Group's purchases are denominated in RM, USD, Euro, SGD and CNY in the following percentages for the Financial Years Under Review and Financial Periods Under Review:

	Audited			**Unaudited**	**Audited**
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2021**	**FPE 2022**
	%	**%**	**%**	**%**	**%**
Currency					
RM	67.21	84.96	54.50	65.86	43.86
USD	28.29	13.90	41.82	27.78	54.73
Euro	4.50	1.13	1.72	2.03	1.06
SGD	-	-	0.97	2.18	-
CNY	-	0.01	0.99	2.15	0.35
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Our Group's purchases are affected by the fluctuations in the exchange rates of the foreign currencies above.

(a) Cost of sales by cost components

The table below sets out our Group's cost of sales by cost components for the Financial Years Under Review and Financial Periods Under Review:

	Audited						Unaudited		Audited	
	FYE 2019		FYE 2020		FYE 2021		FPE 2021		FPE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Marketing and distribution										
Distribution product costs	7,406	69.09	11,055	68.06	17,080	79.25	6,678	76.55	20,409	85.24
Manufacturing										
Raw material costs	1,757	16.39	2,954	18.19	2,228	10.34	1,108	12.70	1,683	7.03
Labour costs	655	6.11	1,248	7.68	896	4.15	393	4.50	759	3.17
Production overheads	901	8.41	985	6.07	1,349	6.26	545	6.25	1,093	4.56
	3,313	30.91	5,187	31.94	4,473	20.75	2,046	23.45	3,535	14.76
Total	**10,719**	**100.00**	**16,242**	**100.00**	**21,553**	**100.00**	**8,724**	**100.00**	**23,944**	**100.00**

Distribution product costs

The distribution product costs for our marketing and distribution segment accounted for approximately 69.09%, 68.06%, 79.25%, 76.55% and 85.24% of our Group's total cost of sales for FYEs 2019, 2020, 2021, FPEs 2021 and 2022 respectively.

We source the medical devices and consumables that we distribute from multiple established, international medical device companies. For medical furniture, we engage third-party contract manufacturers to manufacture. The number of third-party contract manufacturers which we have been engaged for the manufacturing of medical furniture and the cost incurred for the Financial Years Under Review and Financial Periods Under Review are as follows:

	FYE 2019	FYE 2020	FYE 2021	FPE 2021	FPE 2022
Number of third-party contract manufacturer	1	1	1	1	1
Third-party contract manufacturers' cost (RM'000)	2,152	950	1,046	535	2,303

Raw material costs

The raw material costs for our manufacturing segment accounted for approximately 16.39%,18.19%, 10.34%, 12.70% and 7.03% of our Group's total cost of sales for FYEs 2019, 2020, 2021, FPEs 2021 and 2022 respectively.

The raw material costs mainly comprise of plastic resin, packaging materials and injection components such as adaptor body and cap, oxygen connector cover and low density polyethylene plastic that are used for the production of our own medical consumables, namely HydroX series prefilled humidifiers. We source these raw materials mainly from local suppliers.

We usually hold quarterly meetings with our customers to review the selling price and to obtain feedback for our products. We will negotiate a higher selling price with our customers when there is an increase in raw material price and we are generally able to partially pass on any increase in cost to our customers.

Labour costs

Labour costs accounted for approximately 6.11%, 7.68%, 4.15%, 4.50% and 3.17% of our Group's total cost of sales for FYEs 2019, 2020, 2021, FPEs 2021 and 2022 respectively.

Labour costs mainly comprise of salaries, performance incentives, allowances and other related costs and benefits in relation to production workers as well as indirect staff costs of employees who carry out supervisory and marketing roles and/or are involved in quality assurance, R&D and store-keeping. We also engage contractual workers as and when the need arises.

Production overheads

Production overheads accounted for approximately 8.41%, 6.07%, 6.26%, 6.25% and 4.56% of our Group's total cost of sales for FYEs 2019, 2020, 2021, FPEs 2021 and 2022 respectively.

Production overheads mainly comprise of upkeep of machinery and equipment, factory rental, utilities expenses, depreciation on manufacturing related assets (such as plant and machinery and buildings) as well as forwarding and freight charges.

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(b) Cost of sales by business segments

The table below sets out our Group's cost of sales by business segments for the Financial Years Under Review and Financial Periods Under Review:

	Audited						Unaudited		Audited	
	FYE 2019		FYE 2020		FYE 2021		FPE 2021		FPE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Marketing and distribution										
Medical devices	5,071	47.31	8,771	54.00	13,800	64.03	5,234	60.00	18,510	77.31
Medical consumables	1,976	18.43	1,889	11.63	2,543	11.80	1,202	13.78	1,477	6.17
Others	359	3.35	395	2.43	737	3.42	242	2.77	422	1.76
	7,406	69.09	11,055	68.06	17,080	79.25	6,678	76.55	20,409	85.24
Manufacturing										
Medical consumables	3,313	30.91	5,187	31.94	4,473	20.75	2,046	23.45	3,535	14.76
Total	**10,719**	**100.00**	**16,242**	**100.00**	**21,553**	**100.00**	**8,724**	**100.00**	**23,944**	**100.00**

Marketing and distribution segment's cost of sales accounted for approximately 69.09%, 68.06%, 79.25%, 76.55% and 85.24% of our Group's total cost of sales for FYEs 2019, 2020, 2021, FPEs 2021 and 2022 respectively. The component of cost of sales for the marketing and distribution segment only includes costs of distribution products.

Manufacturing segment's cost of sales accounted for approximately 30.91%, 31.94%, 20.75%, 23.45% and 14.76% of our Group's total cost of sales for FYEs 2019, 2020, 2021, FPEs 2021 and 2022 respectively. The main component of cost of sales for the manufacturing segment includes raw material costs, labour costs and production overheads.

(c) Commentaries on cost of sales:

FYE 2019 as compared to FYE 2020

Our Group's cost of sales increased by approximately RM5.52 million or 51.53% from approximately RM10.72 million for FYE 2019 to approximately RM16.24 million for FYE 2020. This was in line with the increase in our revenue for FYE 2020.

The increase in the cost of sales was mainly due to the following:

(i) increase in the cost of sales for the marketing and distribution segment. This was mainly attributable to the increase in the distribution product costs of approximately RM3.65 million which was in line with the increase in sales of medical devices during FYE 2020. However, the increase was partially offset by the decrease in the medical consumable costs of approximately RM0.09 million which is in line with the decrease in sales of medical consumables;

(ii) increase in the cost of sales for the manufacturing segment of approximately RM1.87 million which was mainly attributable to the following:

(a) increase in the overall costs of raw materials of approximately RM1.20 million mainly due to higher raw material costs for our HydroX series prefilled humidifiers as more raw materials such as adaptor caps were used for testing and validation activities for our new mould and automation adaptor assembly line. These adaptor caps used for testing and validation activities were not sold to our customers.

In addition, the unit price of adaptor caps also increased by approximately 16% as compared to the previous year mainly due to a change of material used in the adaptor caps to reduce processing time during the packing stage, after sterilisation is performed;

(b) increase in the labour costs of approximately RM0.59 million as we increased our production workers from a total of 21 personnel in FYE 2019 to a total of 32 personnel in FYE 2020 to cater for the expansion of our manufacturing segment; and

(c) increase in the production overheads of approximately RM0.08 million which was mainly due to the increase in utility costs, forwarding and freight charges and depreciation. The increase in depreciation was mainly attributable to new machineries acquired during the year. As a result of new machineries being acquired, there was a decrease in upkeep and maintenance.

FYE 2020 as compared to FYE 2021

Our Group's cost of sales increased by approximately RM5.31 million or 32.70%, from approximately RM16.24 million for FYE 2020 to approximately RM21.55 million for FYE 2021.

The increase in the cost of sales was mainly due to the increase in the cost of sales for the marketing and distribution segment. This was mainly attributable to the increase in the distribution product costs of approximately RM6.03 million which was in line with the increase in sales of medical devices and consumables during FYE 2021.

However, the increase in the cost of sales was partially offset by the decrease in the cost of sales for the manufacturing segment of approximately RM0.71 million which was mainly attributable to the following:

(i) decrease in the purchase of raw material costs of approximately RM0.73 million as we began to perform in-house sterilisation process. This sterilisation process was previously performed by our approved vendors and this was recorded under the raw material costs. Currently, we do not engage vendors for the sterilisation process; and

(ii) decrease in the labour costs of approximately RM0.35 million as we have automated certain production processes. The decrease in labour costs was mainly due to a decrease in overtime claims as well as reduction of contractual production workers from 69 in FYE 2020 to 3 in FYE 2021.

11. FINANCIAL INFORMATION *(CONT'D)*

Notwithstanding the above, the decrease was partially offset by the increase in production overheads of approximately RM0.36 million which was mainly attributable to higher utility costs and depreciation. The increase in depreciation was mainly due to the depreciation on the additional machineries acquired in FYE 2020 which was recorded on a full-year basis in FYE 2021 as compared to approximately nine (9) months in FYE 2020. The increase was partially offset by the decrease in forwarding and freight charges and upkeep and maintenance as a result of new machineries acquired.

FPE 2021 as compared to FPE 2022

Our Group's cost of sales increased by approximately RM15.22 million or 174.46%, from approximately RM8.72 million for FPE 2021 to approximately RM23.94 million for FPE 2022.

The increase in the cost of sales was mainly due to the following:

(i) increase in the cost of sales for the marketing and distribution segment of approximately RM13.73 million. This was in line with the increase in sales of medical devices and consumables during FPE 2022.

(ii) increase in the cost of sales for the manufacturing segment of approximately RM1.49 million which was mainly attributable to the following:

   (a) increase in the overall costs of raw materials of approximately RM0.58 million mainly due to higher raw material costs for our HydroX series prefilled humidifiers which was in line with the increase in sales of our HydroX series prefilled humidifiers. In addition, there was an increase in price of plastic resin, which is a commodity, of approximately 34% as compared to the previous period.

   However, this was partially offset by a lower average unit price of adaptor body and cap of approximately 69% and 49% respectively as compared to the previous period due to cost efficiencies achieved through the efforts taken by us and our supplier to increase the production efficiency of adaptor body and cap thus reducing the production cost per unit;

   (b) increase in the labour costs of approximately RM0.37 million as we increased our production workers from a total of 19 personnel in FPE 2021 to a total of 39 personnel in FPE 2022 and engaged more contractual workers to cater for the higher production output during the period; and

   (c) increase in the production overheads of approximately RM0.55 million which was mainly due to the higher depreciation charged for new machineries acquired during the period as well as higher utilities expenses incurred at our new factory.

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11. FINANCIAL INFORMATION *(CONT'D)*

(iii) GP and GP margin

(a) GP

The table below sets out our Group's GP by business segments for the Financial Years Under Review and Financial Periods Under Review:

	Audited						Unaudited		Audited	
	FYE 2019		FYE 2020		FYE 2021		FPE 2021		FPE 2022	
GP	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**	**RM'000**	**%**
Marketing and distribution										
Medical devices	2,822	49.48	6,034	81.17	10,121	80.56	4,716	86.85	11,739	90.92
Medical consumables	952	16.69	747	10.05	202	1.61	129	2.38	87	0.68
Others	1,669	29.27	617	8.30	863	6.87	357	6.57	234	1.81
	5,443	95.44	7,398	99.52	11,186	89.04	5,202	95.80	12,060	93.41
Manufacturing										
Medical consumables	260	4.56	36	0.48	1,377	10.96	228	4.20	851	6.59
Total	**5,703**	**100.00**	**7,434**	**100.00**	**12,563**	**100.00**	**5,430**	**100.00**	**12,911**	**100.00**

(b) GP margin

The table below sets out our Group's GP margin by business segments for the Financial Years Under Review and Financial Periods Under Review:

	Audited			Unaudited	Audited
	FYE 2019	FYE 2020	FYE 2021	FPE 2021	FPE 2022
GP margin	**%**	**%**	**%**	**%**	**%**
Marketing and distribution					
Medical devices	35.75	40.76	42.31	47.40	38.81
Medical consumables	32.51	28.34	7.36	9.69	5.56
Others	82.30	60.97	53.94	59.60	35.67
	42.36	40.09	39.57	43.79	37.14
Manufacturing					
Medical consumables	7.28	0.69	23.54	10.03	19.40
Overall GP margin	**34.73**	**31.40**	**36.82**	**38.36**	**35.03**

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(c) Commentaries on GP and GP margin:

FYE 2019 as compared to FYE 2020

In line with the increase in our Group's revenue, our Group's GP increased by approximately RM1.73 million or 30.35% from approximately RM5.70 million for FYE 2019 to approximately RM7.43 million for FYE 2020.

Notwithstanding the above, our Group's overall GP margin decreased by approximately 3.33% from approximately 34.73% for FYE 2019 to approximately 31.40% for FYE 2020. The decrease in GP margin was mainly due to the following:

(i) decrease in GP margin for the marketing and distribution of medical consumables as certain of our medical consumables used for medical devices such as patient monitors/MRI-compatible patient monitors and defibrillators, which were sold together with medical devices at a lower price (i.e. up to a discount of 50% or, in some cases, it was packaged on a complimentary basis as part of the total sales of medical devices) in order to secure sales for medical devices and gain market share. The discounts were given to certain customers as part of our Group's marketing strategy;

(ii) decrease in GP margin for the "Others" segment which was mainly due to the lower revenue generated from this segment as well as higher spare parts cost for the maintenance service and technical support. The spare parts cost had increased by approximately 10% to 15% as compared to the previous year mainly due to the higher prices charged by our suppliers/principals and higher transportation costs. We only partially passed on the increased cost to our customers as we intend to maintain a cordial relationship with our customers for future business dealings; and

(iii) decrease in GP margin for the manufacturing segment which was mainly due to higher costs incurred during FYE 2020 as explained in Section 11.3.3(ii)(c) of this Prospectus.

Notwithstanding the above, the decrease in our Group's overall GP margin was partially offset by the increase in GP margin for marketing and distribution of medical devices. This was in line with the increase in sales of medical devices during FYE 2020. In addition, we managed to purchase these medical devices at a more competitive prices, where discounts were given by our suppliers/principals as we purchased in larger quantities.

FYE 2020 as compared to FYE 2021

In line with the increase in our Group's revenue, our Group's GP increased by approximately RM5.13 million or 68.99% from approximately RM7.43 million for FYE 2020 to approximately RM12.56 million for FYE 2021.

Our Group's overall GP margin increased by approximately 5.42% from approximately 31.40% for FYE 2020 to approximately 36.82% for FYE 2021. The increase in GP margin was mainly due to the increase in GP margin for manufacturing segment which was mainly attributable to the lower costs incurred during FYE 2021 as explained in Section 11.3.3(ii)(c) of this Prospectus.

In addition, there was also an increase in GP margin for marketing and distribution of medical devices. This was in line with the increase in sales of medical devices during FYE 2021 and we managed to continue to purchase these medical devices at a more competitive prices, where discounts were given by our suppliers/principals as we purchased in larger quantities.

Notwithstanding the above, the increase in our Group's overall GP margin was partially offset by the decrease in GP margin for marketing and distribution segment which was mainly due to the following:

(i) decrease in GP margin for marketing and distribution of medical consumables as certain of our medical consumables used for medical devices such as patient monitors/MRI-compatible patient monitors and defibrillators, which were sold together with medical devices at a lower price (i.e. up to a discount of 50% or, in some cases, it was packaged on a complimentary basis as part of the total sales of medical devices) in order to secure sales for medical devices and gain market share. The discounts were given to certain customers as part of our Group's marketing strategy; and

(ii) decrease in GP margin for "Others" segment which was mainly due to higher spare parts cost for the maintenance service and technical support. The spare parts cost had increased by approximately 10% to 15% as compared to the previous year mainly due to the higher prices charged by our suppliers/principals and higher transportation costs. We only partially passed on the increased cost to our customers as we intend to maintain a cordial relationship with our customers for future business dealings.

FPE 2021 as compared to FPE 2022

Our Group's GP increased by approximately RM7.48 million or 137.77% from approximately RM5.43 million for FPE 2021 to approximately RM12.91 million for FPE 2022.

Our Group's overall GP margin decreased by approximately 3.33% from approximately 38.36% for FPE 2021 to approximately 35.03% for FPE 2022. The decrease in GP margin was mainly due to the following:

(i) decrease in GP margin for the marketing and distribution of medical devices mainly due to our Group reducing the selling price of the medical devices in excess of the discount secured from our suppliers as it was our Group's marketing strategy to give a discount to certain of our customers who purchased medical devices in bulk.

Our Group will continue this marketing strategy on a case-by-case basis after taking into consideration various factors such as the creditworthiness (including payment history), the length of business relationship with our customers as well as transaction volume and value of medical devices purchased;

(ii) decrease in GP margin for the marketing and distribution of medical consumables as certain of medical consumables used for medical devices such as patient monitors/MRI-compatible patient monitors and defibrillators, which were sold together with medical devices at a lower price (i.e. up to a discount of 50% or, in some cases, it was packaged on a complimentary basis as part of the total sales of medical devices) in order to secure sales for medical devices and gain market share. The discounts were given to certain customers as part of our Group's marketing strategy; and

(iii) decrease in GP margin for the "Others" segment mainly due to higher spare parts cost for the maintenance service and technical support. The spare parts cost had increased by approximately 10% to 15% as compared to the FPE 2021 mainly due to the higher prices charged by our suppliers/principals and higher transportation costs. Our Group only partially passed on the increased cost to our customers as our Group intends to maintain a cordial relationship with our customers for future business dealings.

Notwithstanding the above, the decrease in our Group's overall GP margin was partially offset by the increase in GP margin for manufacturing segment as our Group managed to sell HydroX series prefilled humidifiers at a higher negotiated average price with our customers in FPE 2022 as compared to FPE 2021 as there was a general increase in prices in the market due to cost increase.

This was partially offset by the following:

(i) increase in the overall costs of raw materials of approximately RM0.58 million mainly due to higher raw material costs for our HydroX series prefilled humidifiers which was in line with the increase in sales of our HydroX series prefilled humidifiers. In addition, there was an increase in price of plastic resin, which is a commodity, of approximately 34% as compared to the previous period.

    However, this was partially offset by a lower average unit price of adaptor body and cap of approximately 69% and 49% respectively as compared to the previous period due to cost efficiencies achieved through the efforts taken by us and our supplier to increase the production efficiency of adaptor body and cap thus reducing the production cost per unit;

(ii) increase in the labour costs of approximately RM0.37 million as we increased our production workers from a total of 19 personnel in FPE 2021 to a total of 39 personnel in FPE 2022 and engaged more contractual workers to cater for the higher production output during the period; and

(iii) increase in the production overheads of approximately RM0.55 million which was mainly due to the higher depreciation charged for new machineries acquired during the period as well as higher utilities expenses incurred at our new factory.

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11. FINANCIAL INFORMATION *(CONT'D)*

(iv) Other income

The table below sets out our Group's other income for the Financial Years Under Review and Financial Periods Under Review:

	Audited						Unaudited		Audited	
	FYE 2019		FYE 2020		FYE 2021		FPE 2021		FPE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Grants(i)	53	14.64	333	46.06	234	38.61	119	45.95	89	31.56
Scrap income(ii)	154	42.54	116	16.04	128	21.12	39	15.06	40	14.18
Unrealised gain in foreign exchange	94	25.97	121	16.74	43	7.09	3	1.15	*	#
Realised gain in foreign exchange	30	8.29	34	4.70	111	18.32	39	15.06	64	22.70
Interest income	31	8.56	32	4.43	37	6.11	21	8.11	49	17.38
Reversal of impairment loss on trade receivables	-	-	85	11.76	11	1.82	-	-	14	4.96
Others(iii)	-	-	2	0.27	42	6.93	38	14.67	26	9.22
Total	**362**	**100.00**	**723**	**100.00**	**606**	**100.00**	**259**	**100.00**	**282**	**100.00**

Notes:

* Less than RM1,000.

\# Negligible.

(i) Comprises grants received from SME Corporation Malaysia for a medical devices initiative programme undertaken by UWHM, Standard and Industrial Research Institute of Malaysia ("**SIRIM**") for upgrading of machines used in the manufacture of prefilled humidifiers for productivity improvement, MIDA for carrying out a smart factory project for prefilled humidifiers and prefilled nebulisers, Northern Corridor Implementation Authority for talent enhancement programme as well as SOCSO for a wage subsidy programme which aims to support employers to continue operations and retain employees during the pandemic.

(ii) Comprises proceeds from the disposal of scraps of plastic materials used for our manufactured products.

(iii) Comprises, amongst others, lease concession and gain on disposal of plant, property and equipment, sponsorship by one of our principals, Mindray for product training purposes.

Our Group has obtained approval for the following grants:

(a) SIRIM for upgrading of machines used in the manufacture of prefilled humidifiers for productivity improvement amounting to RM0.20 million;

(b) SIRIM for design and fabrication of automated leak test device for productivity improvement of prefilled humidifier amounting to approximately RM0.20 million;

(c) MIDA for carrying out a smart factory project for prefilled humidifiers and prefilled nebulisers amounting to approximately RM0.50 million;

(d) MIDA for upgrading of facilities and equipment to carry out the manufacturing activities amounting to approximately RM4.44 million;

(e) Northern Corridor Implementation Authority for talent enhancement programme which facilitate up to 50% of the salary offered to the selected participants or maximum of RM1,000 per month per selected participant, whichever is lower;

(f) SME Corporation Malaysia for a medical devices initiative programme undertaken by UWHM;

(g) reinvestment allowance on qualifying capital expenditure for 15 consecutive years of assessment beginning from the year of assessment in which a claim for that allowance was first made; and

(h) pioneer status with tax exemption of up to 70% on accountable income derived from prefilled humidifier for a period of five (5) years from 1 August 2016 to 31 July 2021.

(a) Commentaries on other income:

FYE 2019 as compared to FYE 2020

Our Group's other income increased by approximately RM0.36 million or 99.72% from approximately RM0.36 million for FYE 2019 to approximately RM0.72 million for FYE 2020. The increase in the other income was mainly due to the following:

(i) increase in grants received of approximately RM0.28 million. During FYE 2020, our Group received new grants amounting to approximately RM0.33 million from SOCSO for wage subsidy programme and SIRIM for design and fabrication of automated leak test device for productivity improvement of prefilled humidifier. During FYE 2019, our Group received a grant amounting to approximately RM0.05 million from SME Corporation Malaysia for a medical devices initiative programme undertaken by UWHM; and

(ii) reversal of impairment loss on trade receivables of approximately RM0.09 million in FYE 2020 as a result of subsequent collection.

FYE 2020 as compared to FYE 2021

Our Group's other income decreased by approximately RM0.12 million or 16.18% from approximately RM0.72 million for FYE 2020 to approximately RM0.61 million for FYE 2021. The decrease in the other income was mainly due to the following:

(i) decrease in grants received of approximately RM0.10 million. During FYE 2021, our Group received grants amounting to approximately RM0.23 million from SME Corporation Malaysia for a medical devices initiative programme undertaken by UWHM, SOCSO for wage subsidy programme and SIRIM for upgrading of machines used in the manufacture of prefilled humidifiers for productivity improvement. During FYE 2020, our Group received new grants amounting to approximately RM0.33 million from SOCSO for wage subsidy programme and SIRIM for design and fabrication of automated leak test device for productivity improvement of prefilled humidifier; and

(ii) decrease in unrealised gain on foreign exchange of approximately RM0.08 million. This was mainly due to the unrealised gain derived from the sales denominated in USD were partially offset by unrealised loss derived from the purchases denominated in USD.

Notwithstanding the above, the decrease in other income was partially offset by the increase in realised gain on foreign exchange of approximately RM0.08 million. The increase was mainly due to sales denominated in USD which were recognised at a lower exchange rate and subsequently converted into RM at a higher exchange rate.

FPE 2021 as compared to FPE 2022

Our Group's other income increased by approximately RM0.02 million or 8.88% from approximately RM0.26 million for FPE 2021 to approximately RM0.28 million for FPE 2022. The increase in the other income was mainly due to the following:

(i) increase in interest income of approximately RM0.03 million received from deposit placed with the financial institutions; and

(ii) increase in realised gain on foreign exchange of approximately RM0.03 million. The increase was mainly due to sales denominated in USD which were recognised at a lower exchange rate and subsequently converted into RM at a higher exchange rate.

Notwithstanding the above, the increase in other income was partially offset by the decrease in grants received of approximately RM0.03 million. During FPE 2022, our Group received new grants amounting to approximately RM0.09 million from MIDA for carrying out a smart factory project for prefilled humidifiers and prefilled nebulisers and Northern Corridor Implementation Authority for talent enhancement programme. During FPE 2021, our Group received grants amounting to approximately RM0.12 million from SOCSO for wage subsidy programme and SME Corporation Malaysia for a medical devices initiative programme.

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(v) Operating expenses

The table below sets out our Group's operating expenses for the Financial Years Under Review and Financial Periods Under Review:

	Audited						Unaudited		Audited	
	FYE 2019		FYE 2020		FYE 2021		FPE 2021		FPE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Marketing expenses	461	10.80	449	9.62	265	4.50	132	4.83	391	6.50
Administrative and other expenses	3,808	89.20	4,217	90.38	5,619	95.50	2,602	95.17	5,623	93.50
Total	**4,269**	**100.00**	**4,666**	**100.00**	**5,884**	**100.00**	**2,734**	**100.00**	**6,014**	**100.00**

(a) Marketing expenses and administrative and other expenses

The table below sets out our Group's marketing expenses and administrative and other expenses for the Financial Years Under Review and Financial Periods Under Review:

	Audited						Unaudited		Audited	
	FYE 2019		FYE 2020		FYE 2021		FPE 2021		FPE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Marketing expenses										
Travelling and transportation costs	317	7.43	243	5.21	186	3.16	101	3.69	134	2.23
Entertainment and sponsorship	76	1.78	78	1.67	66	1.12	17	0.62	50	0.83
Exhibition expenses	56	1.31	110	2.35	*	#	4	0.15	61	1.01
Others[(i)]	12	0.28	18	0.39	13	0.22	10	0.37	146	2.43
	461	10.80	449	9.62	265	4.50	132	4.83	391	6.50
Administrative and other expenses										
Staff costs and welfare	1,856	43.47	2,063	44.22	2,758	46.87	1,266	46.31	3,413	56.75
Directors' remuneration	767	17.97	825	17.68	1,110	18.86	674	24.65	308	5.12
Depreciation	185	4.33	368	7.89	405	6.88	170	6.22	268	4.46
Rental expenses	155	3.63	59	1.26	62	1.05	40	1.46	22	0.37
Insurance	42	0.98	42	0.90	60	1.02	14	0.51	58	0.96
Professional fee	[(ii)]166	3.89	[(ii)]202	4.33	[(iii)]726	12.34	158	5.78	1,077	17.91
Impairment loss on trade receivables	157	3.68	6	0.13	12	0.21	-	-	-	-
Realised loss on foreign exchange	70	1.64	-	-	33	0.56	31	1.13	54	0.90
Unrealised loss on foreign exchange	-	-	-	-	32	0.54	34	1.25	7	0.12

11. FINANCIAL INFORMATION *(CONT'D)*

	Audited						Unaudited		Audited	
	FYE 2019		FYE 2020		FYE 2021		FPE 2021		FPE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Office supplies and upkeep of office equipment	102	2.39	100	2.14	144	2.45	65	2.38	85	1.41
Postage and stamp duty	113	2.65	335	7.18	40	0.68	27	0.99	92	1.53
Utilities	63	1.48	68	1.46	74	1.26	60	2.19	64	1.06
Licence, registration and related fees to authorities	24	0.56	78	1.67	34	0.58	18	0.66	66	1.10
Bank charges and commission	46	1.08	18	0.39	28	0.48	18	0.66	19	0.31
Taxes(iv)	23	0.54	2	0.04	1	0.02	*	#	-	-
Others(v)	39	0.91	51	1.09	100	1.70	27	0.98	90	1.50
	3,808	89.20	4,217	90.38	5,619	95.50	2,602	95.17	5,623	93.50
Total	**4,269**	**100.00**	**4,666**	**100.00**	**5,884**	**100.00**	**2,734**	**100.00**	**6,014**	**100.00**

Notes:

* Less than RM1,000.

\# Negligible.

(i) Comprises tender and expenses related machine testing.

(ii) Comprises mainly audit fees and legal fees for our banking facilities.

(iii) Comprises mainly audit fees and advisory fees for our Listing.

(iv) Comprises sales and services tax ("**SST**") expenses and withholding tax.

For information purposes, UWHM was granted an exemption certificate by Royal Malaysia Customs Department ("**Customs Department**") for certain raw materials, components, packaging materials and manufacturing aid imported/purchased with exemption from sales tax under Item 4 Schedule B, Sales Tax (Person Exempted from Payment of Tax) Order 2018, for use in the manufacturing activities ("**Exemption**"). The Exemption was granted on 23 October 2018 and subject to annual renewal. UWHM has renewed the Exemption every year and the next expiry date is on 22 October 2022.

Save for the withholding tax of approximately RM0.01 million for FYEs 2019 and 2020 respectively, we do not have any provisions for withholding tax during the Financial Years Under Review and Financial Periods Under Review. The abovementioned withholding tax paid was relating to professional and certification services rendered by overseas consultants under the European Commission 93/42/EEC. This may recur after our Listing as we may engage the overseas consultants for such services, as and when required.

(v) Comprises, amongst others, advertisement, chargeback, road tax, donation, small equipment, quit rent and assessment as well as security charges.

(b) **Commentary on operating expenses:**

FYE 2019 as compared to FYE 2020

Our Group's operating expenses increased by approximately RM0.40 million or 9.30% from approximately RM4.27 million for FYE 2019 to approximately RM4.67 million for FYE 2020. The increase in operating expenses was mainly due to the increase in administrative and other expenses of approximately RM0.41 million, but partially offset by the decrease in marketing expenses of approximately RM0.01 million.

The increase in the administrative and other expenses was mainly attributable to the following:

(i) increase in staff cost of approximately RM0.21 million mainly due to annual salary increment and the increase in our administration staff headcount from 36 employees in FYE 2019 to 45 employees in FYE 2020;

(ii) increase in depreciation of approximately RM0.18 million mainly due to the acquisition of the Batu Kawan Land during FYE 2020; and

(iii) increase in postage and stamp duty of approximately RM0.22 million mainly due to higher stamp duty incurred for the acquisition of the Batu Kawan Land as well as additional banking facilities.

Notwithstanding the above, the increase in administrative and other expenses was partially offset by the decrease in impairment loss on trade receivables of approximately RM0.15 million. The impairment loss on trade receivables for FYE 2019 was mainly due to initial application of Malaysian Financial Reporting Standard ("**MFRS**") 9 – *Financial Instrument* with a forward-looking assessment of expected credit losses.

The decrease in the marketing expenses was mainly attributable to the decrease in travelling and transportation costs of approximately RM0.07 million which was mainly due to the imposition of various phases of MCO by the Government which commenced from 18 March 2020 to contain the COVID-19 pandemic. However, this was partially offset by the increase in the exhibition expenses of approximately RM0.05 million as we incurred video production costs in FYE 2020 for marketing purposes.

FYE 2020 as compared to FYE 2021

Our Group's operating expenses increased by approximately RM1.22 million or 26.10% from approximately RM4.67 million for FYE 2020 to approximately RM5.88 million for FYE 2021. The increase in operating expenses was mainly due to the increase in administrative and other expenses of approximately RM1.40 million, but partially offset by the decrease in marketing expenses of approximately RM0.18 million.

The increase in the administrative and other expenses was mainly attributable to the following:

(i) increase in staff cost of approximately RM0.70 million mainly due to annual salary increment and the increase in our administration staff headcount from 45 employees in FYE 2020 to 55 employees in FYE 2021;

(ii) increase in professional fee of approximately RM0.52 million mainly due to the professional fees for our Listing; and

(iii) increase in directors' remuneration of approximately RM0.29 million mainly due to the increment in line with the improved performance of our Group for FYE 2021.

Notwithstanding the above, the increase in administrative and other expenses was partially offset by decrease in postage and stamp duty of approximately RM0.30 million as there was no stamp duty incurred in FYE 2021 as compared to FYE 2020. In FYE 2020, there was stamp duty incurred for the acquisition of the Batu Kawan Land as well as additional banking facilities.

The decrease in the marketing expenses was mainly attributable to the decrease in travelling and transportation costs of approximately RM0.06 million and exhibition expenses of approximately RM0.11 million. This was mainly due to the imposition of various phases of MCO by the Government which commenced from 18 March 2020 to contain the COVID-19 pandemic.

FPE 2021 as compared to FPE 2022

Our Group's operating expenses increased by approximately RM3.28 million or 119.97% from approximately RM2.73 million for FPE 2021 to approximately RM6.01 million for FPE 2022. The increase in operating expenses was due to the increase in administrative and other expenses of approximately RM3.02 million and increase in marketing expenses of approximately RM0.26 million.

The increase in the administrative and other expenses was mainly attributable to the following:

(i) increase in staff cost and directors' remuneration of approximately RM1.78 million mainly due to annual salary increment and higher bonus payout in line with the improved performance of our Group. In addition, our administration staff headcount increased from 53 employees in FPE 2021 to 65 employees in FPE 2022;

(ii) increase in professional fee of approximately RM0.92 million mainly due to the professional fees for our Listing; and

(iii) increase in depreciation of approximately RM0.10 million mainly due to new factory building on the Batu Kawan Land as well as purchase of additional computer systems.

The increase in the marketing expenses was mainly attributable to the following:

(i) increase in expenses related machine testing of approximately RM0.14 million as our Group performed machine testing for our customers prior to securing orders; and

(ii) increase in exhibition expenses of approximately RM0.06 million as we participated in more exhibitions during FPE 2022.

11. FINANCIAL INFORMATION *(CONT'D)*

(vi) Finance cost

The table below sets out our Group's finance costs for the Financial Years Under Review and Financial Periods Under Review:

	Audited						Unaudited		Audited	
	FYE 2019		FYE 2020		FYE 2021		FPE 2021		FPE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interest expenses on:										
Term loans	140	85.89	269	60.45	483	66.08	201	60.91	283	60.60
Bankers' acceptance	-	-	71	15.95	133	18.19	61	18.49	128	27.41
Lease liabilities	23	14.11	53	11.91	58	7.93	27	8.18	31	6.64
Letter of credit	-	-	50	11.24	53	7.25	37	11.21	22	4.71
Bank guarantee	-	-	2	0.45	4	0.55	4	1.21	3	0.64
Total	**163**	**100.00**	**445**	**100.00**	**731**	**100.00**	**330**	**100.00**	**467**	**100.00**

(a) Commentary on finance costs:

FYE 2019 as compared to FYE 2020

Our Group's finance costs increased by approximately RM0.28 million or 173.01% from approximately RM0.16 million for FYE 2019 to approximately RM0.45 million for FYE 2020.

The increase in finance costs was mainly due to the following:

(i) higher interest expenses on the term loans of approximately RM0.13 million which was mainly attributable to the drawdown of new term loan of approximately RM8.68 million to part finance the acquisition of the Batu Kawan Land and its construction costs;

(ii) higher interest expenses on the bankers' acceptance of approximately RM0.07 million which was mainly attributable to the drawdown of new bankers' acceptance of approximately RM4.53 million for our working capital purposes; and

(iii) higher interest expenses on the letter of credit of approximately RM0.05 million which was mainly attributable to the utilisation of letter of credit facilities for the purchase of our distribution products.

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FYE 2020 as compared to FYE 2021

Our Group's finance costs increased by approximately RM0.29 million or 64.27% from approximately RM0.45 million in FYE 2020 to approximately RM0.73 million in FYE 2021.

The increase in finance costs was mainly due to the following:

(i) higher interest expenses on term loans of approximately RM0.21 million which was mainly attributable to the interest expense arising from term loan drawdown in FYE 2020 which was recorded on a full year basis in FYE 2021 as compared to approximately seven (7) months in FYE 2020. The increase was also due to the drawdown of new term loan of approximately RM4.35 million to part finance the construction cost and purchase of machineries; and

(ii) higher interest expenses on the bankers' acceptance of approximately RM0.06 million which was mainly attributable to the net drawdown of bankers' acceptance of approximately RM4.93 million for our working capital purposes.

FPE 2021 as compared to FPE 2022

Our Group's finance costs increased by approximately RM0.14 million or 41.52% from approximately RM0.33 million in FPE 2021 to approximately RM0.47 million in FPE 2022.

The increase in finance costs was mainly due to the following:

(i) higher interest expenses on term loans of approximately RM0.08 million which was mainly attributable to the expiry of loan moratorium period for certain of our term loans subsequent to FPE 2021. In addition, subsequent to FPE 2021, there was a drawdown of term loans of approximately RM1.71 million, to part finance the construction cost and purchase of machineries, which also contributed to the increase in interest expenses for FPE 2022; and

(ii) higher interest expenses on the bankers' acceptance of approximately RM0.07 million which was mainly attributable to drawdown of bankers' acceptance of approximately RM3.95 million for our working capital purposes.

(vii) PBT and PBT margin

The table below sets out our Group's PBT and PBT margin for the Financial Years Under Review and Financial Periods Under Review:

	Audited			Unaudited	Audited
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2021**	**FPE 2022**
PBT (RM'000)	1,617	3,043	6,554	2,625	6,712
PBT margin (%)	9.85	12.85	19.21	18.55	18.21

11. FINANCIAL INFORMATION *(CONT'D)*

(a) Commentary on PBT and PBT margin:

FYE 2019 as compared to FYE 2020

Our Group's PBT increased by approximately RM1.43 million or 88.19% from approximately RM1.62 million for FYE 2019 to approximately RM3.04 million for FYE 2020. The increase in PBT was mainly contributed by the increase in GP and other income of approximately RM1.73 million and RM0.36 million respectively as compared to FYE 2019. However, the increase in PBT was partially offset by higher administrative and other expenses of approximately RM0.41 million and higher finance costs of approximately RM0.28 million.

Despite the slight decrease in GP margin, our Group's PBT margin increased from approximately 9.85% for FYE 2019 to approximately 12.85% for FYE 2020.

FYE 2020 as compared to FYE 2021

Our Group's PBT increased by approximately RM3.51 million or 115.38% from approximately RM3.04 million for FYE 2020 to approximately RM6.55 million for FYE 2021. The increase in PBT was mainly contributed by the increase in GP of approximately RM5.13 million and lower marketing expenses of approximately RM0.18 million as compared to FYE 2020. However, the increase in PBT was partially offset by lower other income of approximately RM0.12 million, higher administrative and other expenses of approximately RM1.40 million and higher finance costs of approximately RM0.29 million.

Further, our Group's PBT margin increased from approximately 12.85% for FYE 2020 to approximately 19.21% for FYE 2021.

FPE 2021 as compared to FPE 2022

Our Group's PBT increased by approximately RM4.09 million or 155.70% from approximately RM2.63 million for FPE 2021 to approximately RM6.71 million for FPE 2022. The increase in PBT was mainly contributed by the increase in GP of approximately RM7.48 million and increase in other income of approximately RM0.02 million as compared to FPE 2021. However, the increase in PBT was partially offset by higher marketing expenses of approximately RM0.26 million, higher administrative and other expenses of approximately RM3.02 million and higher finance costs of approximately RM0.14 million.

Further, our Group's PBT margin slightly decreased from approximately 18.55% for FPE 2021 to approximately 18.21% for FPE 2022.

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(viii) Taxation

The table below sets out our Group's taxation together with the comparison between our Group's effective and statutory tax rates for the Financial Years Under Review and Financial Periods Under Review:

	Audited			Unaudited	Audited
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2021**	**FPE 2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Income tax					
Current tax expenses based on profit for the financial year	402	625	1,274	470	2,025
Under/(Over)provision of tax expense in prior years	(9)	58	92	-	132
	393	683	1,366	470	2,157
Deferred tax					
Relating to origination and reversal of temporary differences	29	(2)	101	-	(131)
(Over)/underprovision in prior years	(124)	(57)	*	-	114
	(95)	(59)	101	470	(17)
Total	**298**	**624**	**1,467**	**470**	**2,140**
Effective tax rate[(i)] (%)	18.43	20.51	22.38	17.90	31.88
Statutory tax rate (%)	24.00	24.00	24.00	24.00	24.00

Notes:

* Less than RM1,000.

(i) Effective tax rate is computed based on the total tax expenses divided by PBT for the respective financial year.

(a) Commentary on taxation:

FYE 2019

Our Group's effective tax rate was at 18.43% for FYE 2019. The effective tax rate for FYE 2019 was lower than the statutory tax rate of 24.00% mainly due to the following:

(i) overprovision of income tax expenses and deferred tax expenses in prior years of approximately RM0.01 million and RM0.12 million respectively. The overprovision of deferred tax expenses in prior year mainly due to over-estimation of capital allowances on our qualifying fixed assets; and

(ii) lower corporate tax rate enjoyed by entities with paid-up capital of RM2.50 million or less within our Group.

Notwithstanding the above, our Group's tax expenses were partially offset against expenses not deductible for tax purposes such as depreciation, entertainment expenses and general provision of impairment loss on trade receivables.

FYE 2020

Our Group's effective tax rate was at 20.51% for FYE 2020. The effective tax rate for FYE 2020 was lower than the statutory tax rate of 24.00% mainly due to the following:

(i) grants received which were not subject to income tax;

(ii) overprovision of deferred tax expenses in prior years of approximately RM0.06 million and utilisation of previously unrecognised deferred tax assets of approximately RM0.06 million. The overprovision of deferred tax expenses in prior year mainly due to over-estimation of capital allowances on our qualifying fixed assets; and

(iii) lower corporate tax rate enjoyed by entities with paid-up capital of RM2.50 million or less within our Group.

Notwithstanding the above, our Group's tax expenses were partially offset against expenses not deductible for tax purposes such as depreciation, entertainment expenses and stamp duty.

FYE 2021

Our Group's effective tax rate was at 22.38% for FYE 2021. The effective tax rate for FYE 2021 was lower than the statutory tax rate of 24.00% mainly due to the following:

(i) gain in foreign exchange in relation to expenses which were capital in nature and lease concession which were not subject to income tax;

(ii) utilisation of previously unrecognised deferred tax assets of approximately RM0.12 million; and

(iii) lower corporate tax rate enjoyed by entities with paid-up capital of RM2.50 million or less within our Group.

Notwithstanding the above, our Group's tax expenses were partially offset against expenses not deductible for tax purposes such as depreciation and entertainment expenses.

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FPE 2022

Our Group's effective tax rate was at 31.88% for FPE 2022. The effective tax rate for FPE 2022 was higher than the statutory tax rate of 24.00% mainly due to the following:

(i) expenses not deductible for tax purposes in current year such as professional fees for our Listing and provision of staff performance bonus;

(ii) underprovision of income tax expenses in prior years of approximately RM0.13 million mainly due to under-estimation of non-deductible expenses; and

(iii) underprovision of deferred tax expenses in prior year of approximately RM0.11 million mainly due to over-estimation of capital allowances on our qualifying fixed assets.

(ix) PAT and PAT margin

The table below sets out our Group's PAT and PAT margin for the Financial Years Under Review and Financial Periods Under Review:

	Audited			Unaudited	Audited
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2021**	**FPE 2022**
PAT (RM'000)	1,319	2,419	5,087	2,155	4,572
PAT margin (%)	8.03	10.22	14.91	15.23	12.41

Our PAT and PAT margin were generally consistent with the growth in PBT and PBT margin during the Financial Years Under Review.

Our PAT margin decreased from approximately 15.23% for FPE 2021 to approximately 12.41% for FPE 2022 was mainly due to higher tax expenses incurred in FPE 2022 as explained in Section 11.3.3(viii)(a) of this Prospectus.

11.3.4 Impact of fluctuation in foreign exchange, interest rate, inflation and government/economic/fiscal/monetary policies

(i) Foreign exchange

Our sales are primarily transacted in RM and USD whilst our purchases are primarily transacted in RM, USD and Euro. As such, we are exposed to fluctuations in foreign exchange rates and any adverse movements in the foreign exchange markets may have a negative impact on our financial performance and operating results.

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The impact of foreign exchange fluctuations on our financial performance during the Financial Years Under Review and Financial Periods Under Review are as follows:

	Audited			Unaudited	Audited
	FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2021**	**FPE 2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Realised gain on foreign exchange	30	34	111	39	64
Unrealised gain on foreign exchange	94	121	43	3	*
Realised loss on foreign exchange	(70)	-	(33)	(31)	(54)
Unrealised loss on foreign exchange	-	-	(32)	(34)	(7)
Net gain/(loss) on foreign exchange	**54**	**155**	**89**	**(23)**	**3**
PBT	1,617	3,043	6,554	2,625	6,712
Net gain/(loss) on foreign exchange as a percentage of PBT (%)	3.34	5.09	1.36	(0.88)	0.04

Note:

* Less than RM1,000.

Based on the above, we are exposed to foreign exchange gains or losses during the conversion of foreign currency into RM, mainly arising from the timing differences between our billings and the actual receipts of payments from our foreign customers.

We monitor closely the movement of the foreign exchange to manage our foreign exchange risks. We also maintain foreign currency accounts whereby collections arising from our foreign sales are used to settle our purchases in the same foreign currency. This would provide, to a certain extent, a natural hedge against the foreign exchange fluctuations.

(ii) Interest rate

Our exposure to interest rate fluctuations arises from floating rate bank borrowings which is pegged to the base financing rate as stipulated by our financial institution that may change from time to time. As such, any change in the interest rate of our floating rate bank borrowings will raise the cost of our borrowings and our finance costs, which in turn may have an adverse effect on our financial performance.

Our Group has monitored and will continue to monitor interest rates movements to ensure that the most competitive rates are secured and where appropriate, borrowing arrangements and interest bearing instruments are structured or reduced.

The interest coverage ratio of our Group for the Financial Years Under Review and Financial Periods Under Review is as follow:

	Audited			Unaudited	Audited
	As at 31 July			As at 31 January	
	2019	2020	2021	2021	2022
	RM'000	RM'000	RM'000	RM'000	RM'000
Total borrowings (including lease liabilities owing to financial institutions)	2,173	16,305	26,313	20,751	20,179
Profit before interest and tax	1,780	3,488	7,285	2,955	7,179
Finance costs	163	445	731	330	467
Interest coverage ratio[(i)] (times)	10.92	7.84	9.97	8.95	15.37

Note:

(i) Interest coverage ratio is computed based on profit before interest and tax over finance costs.

Interest coverage ratio measures the number of times a company can make its interest payments with its profit before interest and tax. Our interest coverage ratio of 9.97 times and 15.37 times for FYE 2021 and FPE 2022 respectively, indicates that our Group has been able to generate sufficient profits before interest and tax to meet our interest serving obligations.

Our Group's financial results for the Financial Years Under Review and Financial Periods Under Review were not materially affected by fluctuations in interest rates. However, should there be any major increase in interest rates in the future, it would raise the cost of borrowings and our finance costs, which may have an adverse effect on the performance of our Group.

(iii) Inflation

Our business, financial condition or results of our operations for the Financial Years Under Review and Financial Periods Under Review were not materially affected by the inflation. Nevertheless, there can be no assurance that future inflation would not have an impact on our business operations and financial performance.

(iv) Government/economic/fiscal/monetary policies

We are subject to the risks of government, economic, fiscal or monetary policies, where any unfavourable change may materially affect our business operations, financial performance and prospects of the healthcare industry in which we operate. For the Financial Years Under Review and Financial Periods Under Review, our results were not adversely affected by any unfavourable changes relating to government, economic, fiscal or monetary policies.

11.4 LIQUIDITY AND CAPITAL RESOURCES

11.4.1 Working capital

For the Financial Years Under Review and Financial Periods Under Review, we have financed our operations mainly through cash generated from our operations, credit extended by our suppliers/principals and external borrowings from financial institutions. The principal use of these funds are to finance our working capital purposes, which include, amongst others, the purchases of distribution products, raw materials and payments to our employees and other suppliers/principals as well as purchases of plant and machinery, along with the repayment of bank borrowings.

As at 31 January 2022, we have:

(i) cash and bank balances of approximately RM5.61 million; and

(ii) banking facilities of approximately RM32.40 million, of which approximately RM6.50 million has yet to be utilised.

As at 31 January 2022, our working capital which is calculated based on total current assets minus total current liabilities, was approximately RM8.72 million. This represents a current ratio of approximately 1.63 times.

Based on the above, after taking into consideration our evaluation of the impact of COVID-19 pandemic on our Group as discussed in Section 6.19 of this Prospectus as well as the funding requirements for our committed capital expenditure, expected cash flows to be generated from our operations, our existing level of cash and bank balances, credit resources and the proceeds to be raised from our IPO, our Board confirms that we will have sufficient working capital for at least 12 months from the date of this Prospectus.

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11.4.2 Cash flows

The table below sets out the summary of our Group's cash flows for the Financial Years Under Review and Financial Periods Under Review:

	Audited			Unaudited	Audited
	2019 RM'000	**2020 RM'000**	**2021 RM'000**	**2021 RM'000**	**2022 RM'000**
Net cash from/(used in) operating activities	6,667	(3,911)	3,650	2,917	9,652
Net cash used in investing activities	(5,523)	(932)	(9,262)	(5,717)	(529)
Net cash (used in)/from financing activities	(693)	6,804	4,867	675	(6,264)
Net increase/(decrease) in cash and cash equivalents	**451**	**1,961**	**(745)**	**(2,125)**	**2,859**
Effects of foreign exchange rates changes	15	4	6	3	(12)
Cash and cash equivalents at beginning of financial year	1,069	1,535	3,500	3,500	2,761
Cash and cash equivalents at end of financial year	**1,535**	**3,500**	**2,761**	**1,378**	**5,608**

There is no legal, financial or economic restriction on our subsidiaries' ability to transfer/receive funds to/from our Company in the form of cash dividends, loans or advances, subject to the availability of distributable reserves, loans or advances in compliance with any applicable financial covenant.

Commentaries on cash flows:

FYE 2019

(i) Net cash from operating activities

For FYE 2019, our Group's operating profit before changes in working capital was approximately RM2.16 million. After adjusting for the following key items, our net cash from operating activities was approximately RM6.67 million:

(a) increase in inventories of approximately RM0.07 million mainly due to higher purchase of distribution products and raw materials as well as higher amount of goods in transit in anticipation of higher demand for our products in FYE 2020 after taking into consideration, amongst others, the sales orders received towards the end of FYE 2019;

(b) increase in trade and other receivables of approximately RM1.18 million mainly due to higher sales towards the end of FYE 2019 which resulted in higher amounts due from customers.

In addition, there were also amounts owing by our directors and their related parties, of which the details are as follows:

	Purpose	RM'000
Dato' Ng Chai Eng	Advances to Director	42
Kong Yoen Hoo	Advances to director of subsidiary	26
Meditech	Sale of medical consumables and spare parts as well as provision of technical service	58
Medik Healthcare Sdn Bhd	Advances to related party	4
Dale Innovation Sdn Bhd	Advances to related party	46
United Wellcare Sdn Bhd	Advances to related party	14
Total		**190**

(c) increase in trade and other payables of approximately RM5.80 million mainly due to the increase in advances from the directors for working capital purposes. These advances were interest-free;

(d) interest received from our cash deposited with the financial institutions of approximately RM0.03 million; and

(e) net income tax of approximately RM0.07 million paid.

(ii) Net cash used in investing activities

For FYE 2019, our Group recorded net cash used in investing activities of approximately RM5.52 million which was due to the acquisition of the Batu Kawan Land.

(iii) Net cash used in financing activities

For FYE 2019, our Group recorded net cash used in financing activities of approximately RM0.69 million which was mainly attributed to:

(a) payment of dividend of RM0.30 million to the following shareholders:

Shareholders	RM'000
Dato' Ng Chai Eng	59
Lim Taw Seong	59
Lau Chee Kheong	59
Lim Suat Gim	90
Kong Yoen Hoo	33
Total	**300**

(b) repayment of banking facilities of approximately RM0.25 million; and

(c) payment of interest of approximately RM0.14 million.

FYE 2020

(i) Net cash used in operating activities

For FYE 2020, our Group's operating profit before changes in working capital was approximately RM3.96 million. After adjusting for the following key items, our net cash used in operating activities was approximately RM3.91 million:

(a) increase in inventories of approximately RM1.88 million mainly due to higher purchase of distribution products and raw materials in anticipation of higher demand for our products in FYE 2021 after taking into consideration, amongst others, the sales orders received towards the end of FYE 2020;

(b) increase in trade and other receivables of approximately RM4.06 million mainly due to the prepayment for the purchase of machineries.

In addition, there were also amounts owing by our directors and their related parties, of which the details are as follows:

	Purpose	RM'000
Dato' Ng Chai Eng	Advances to Director	3
Lim Taw Seong	Advances to Director	3
Lau Chee Kheong	Advances to Director	3
Meditech	Sale of medical consumables and spare parts as well as provision of technical service	16
Medik Healthcare Sdn Bhd	Advances to related party	2
Dale Innovation Sdn Bhd	Advances to related party	10
United Wellcare Sdn Bhd	Advances to related party	16
Total		**53**

(c) decrease in trade and other payables of approximately RM1.46 million mainly due to partial repayment of advances from the directors. These advances were for working capital purposes and interest-free. This was partially offset by higher purchase of distribution products and raw materials towards the end of FYE 2020;

(d) interest received from our cash deposited with the financial institutions of approximately RM0.03 million; and

(e) net income tax of approximately RM0.50 million paid.

We incurred a net operating cash outflow for FYE 2020 mainly due to the prepayment for the purchase of machineries, which was used for our manufacturing segment and resulted in a significant increase in our closing balances of other receivables in FYE 2020. After taking into consideration that the purchase of machineries was a one-off event as well as our current cash position, we do not anticipate this to recur in the future.

(ii) Net cash used in investing activities

For FYE 2020, our Group recorded net cash used in investing activities of approximately RM0.93 million which was mainly attributed to the construction works in progress for the building on the Batu Kawan Land and purchase of machineries.

(iii) Net cash from financing activities

For FYE 2020, our Group recorded net cash from financing activities of approximately RM6.80 million which was mainly attributed to:

(a) drawdown of new term loan of approximately RM6.37 million to part finance the acquisition of the Batu Kawan Land and the construction cost for the building on the Batu Kawan Land;

(b) drawdown of bankers' acceptance of approximately RM4.53 million for our working capital purposes; and

(c) proceeds from the issuance of new ordinary shares in UWHM of RM0.20 million.

This was, however, partially offset by the following:

(i) repayment of banking facilities of approximately RM2.63 million;

(ii) payment of dividend of approximately RM1.27 million to the following shareholders:

Shareholders	RM'000
Dato' Ng Chai Eng	390
Lim Taw Seong	390
Lau Chee Kheong	336
Lim Suat Gim	18
Kong Yoen Hoo	131
Total	**1,265**

(iii) payment of interest of approximately RM0.39 million.

<u>**FYE 2021**</u>

(i) Net cash from operating activities

For FYE 2021, our Group's operating profit before working capital changes were approximately RM8.07 million. After adjusting for the following key items, our net cash from operating activities was approximately RM3.65 million:

(a) increase in inventories of approximately RM4.53 million mainly due to higher purchase of distribution products and raw materials in anticipation of higher demand for our products in FYE 2022 after taking into consideration, amongst others, the sales orders received towards the end of FYE 2021;

(b) increase in trade and other receivables of approximately RM2.49 million mainly due to higher sales towards the end of FYE 2021 which resulted in higher amounts due from customers.

In addition, there were also amounts owing by the related parties, of which the details are as follows:

	Purpose	RM'000
Meditech	Sale of medical consumables and spare parts as well as provision of technical service	46
ASB	Sale of medical consumables such as sanitizers and disinfectants for their office internal use.	1
Total		**47**

(c) increase in trade and other payables of approximately RM4.02 million mainly due to the increase in advances from the directors. These advances were subsequently settled through issuance of new ordinary shares in UWHM;

(d) interest received from our cash deposited with the financial institutions of approximately RM0.04 million; and

(e) net income tax of approximately RM1.47 million paid.

(ii) Net cash used in investing activities

For FYE 2021, our Group recorded net cash used in investing activities of approximately RM9.26 million which was mainly attributed to the purchase of machines such as high precision good manufacturing practice (GMP) version automated filling sealing machine, steam air mixture sterilisation, blow moulding machine and BWT OSMOTRON® PRO machine. Please refer to Section 6.11 of this Prospectus for further details on these machines.

(iii) Net cash from financing activities

For FYE 2021, our Group recorded net cash from financing activities of approximately RM4.87 million which was mainly attributed to:

(a) drawdown of term loan of approximately RM1.00 million to part finance the construction cost and purchase of machineries;

(b) net drawdown of bankers' acceptance of approximately RM4.93 million for working capital purposes; and

(c) proceeds from the issuance of new ordinary shares in UWHM of RM0.60 million.

This was, however, partially offset by the following:

(i) repayment of banking facilities of approximately RM1.13 million; and

(ii) payment of interest of approximately RM0.67 million.

FPE 2022

(i) Net cash from operating activities

For FPE 2022, our Group's operating profit before working capital changes were approximately RM7.94 million. After adjusting for the following key items, our net cash from operating activities was approximately RM9.65 million:

(a) decrease in inventories of approximately RM1.51 million mainly due to higher sales in medical devices;

(b) decrease in trade and other receivables of approximately RM2.24 million mainly due to better collection from our customers during the period;

(c) decrease in trade and other payables of approximately RM1.61 million mainly due to a decrease in trade payables as we made prompt payment to our suppliers/principals in order to maintain good business relationships with our suppliers/principals and safeguard the continuity of our supplies. However, this was partially offset by an increase in other payables as there was a provision of staff performance bonus made during the period;

(d) interest received from our cash deposited with the financial institutions of approximately RM0.05 million; and

(e) income tax of approximately RM0.49 million paid.

(ii) Net cash used in investing activities

For FPE 2022, our Group recorded net cash used in investing activities of approximately RM0.53 million which was mainly attributed to the purchase of tools and equipment as well as renovation of the factory building on Batu Kawan Land.

(iii) Net cash used in financing activities

For FPE 2022, our Group recorded net cash used in financing activities of approximately RM6.26 million which was mainly attributed to:

(a) net repayment of term loan of approximately RM0.49 million;

(b) net repayment of bankers' acceptance of approximately RM5.50 million; and

(c) payment of lease liabilities of approximately RM0.19 million.

This was, however, partially offset by a grant of approximately RM0.35 million received from MIDA for carrying out a smart factory project for prefilled humidifiers and prefilled nebulisers.

11.4.3 Borrowings

Our Group's total outstanding borrowings as at 31 January 2022 are as follows:

Type of borrowings	Purpose	Tenure	Interest rate per annum	As at 31 January 2022 Payable within 12 months RM'000	Payable after 12 months RM'000	Total RM'000
Term loans[(i)]	To part finance purchase of the machinery and equipment and construction cost of the building on the Batu Kawan Land	5 - 7 years	1.25% above the bank's cost of funding rate	802	4,001	4,803
Term loan	To part finance acquisition of the Batu Kawan Land and the construction cost of the building thereon	18 years	1.10% above the bank's cost of funding rate	556	8,215	8,771
Term loan	Working capital	5 years	3.50%	392	1,282	1,674
Lease creditors[(ii)]	Purchase of property, plant and machinery	4 – 5 years	2.71% - 3.25%	302	679	981
Bankers' acceptance[(iii)]	Working capital	Up to 120 days	1.92% - 2.42%	3,950	-	3,950
Total				**6,002**	**14,177**	**20,179**

Notes:

(i) Comprises two (2) term loans.

(ii) Comprises ten (10) hire purchase lines.

(iii) Comprises three (3) trade lines of bankers' acceptance.

Our borrowings are denominated in RM, which is secured and interest bearing.

For our marketing and distribution segment, we generally keep a certain level of inventory for our distribution products in order to shorten overall lead time for delivery to our customers as well as to loan to our customers as demonstration units as the medical devices that we distribute are deemed critical medical equipment and any delay in the delivery of such equipment should be kept to a minimum. Please refer to Section 11.4.8(iii) of this Prospectus for further details on our inventories.

During the Financial Years/Periods Under Review, certain borrowings were drawn down from financial institutions to finance our working capital purposes, which include, amongst others, the purchases of distribution products, raw materials and payments to our employees and other suppliers/principals.

The bank borrowings granted to us from the financial institutions are secured by charge over our leasehold land and buildings and are jointly and severally guaranteed by the directors of our Group.

As disclosed in Section 9.15 of the Accountants' Report in Section 12 of this Prospectus, there was a legal charge over a piece of land of the related party of our Group. The legal charge was in relation to the term loan which was secured in FYE 2016 and was fully settled in FYE 2020.

Upon acquiring the Batu Kawan Land on 17 May 2019, our Group obtained a new term loan secured by way of charge over the leasehold land and buildings and jointly and severally guaranteed by the directors of our Group.

Further, our Group has obtained the conditional consents from the financial institutions to discharge the directors above from their personal guarantees by substituting the same with a corporate guarantee from our Company upon successful completion of our Listing.

The details of bank borrowings as well as the securities charges are as follows:

Details of bank borrowing	Securities provided
Hong Leong Bank Berhad for facilities granted to UMediC consisting fixed term loans, letters of credit, trust receipt, bankers' acceptance and bank guarantee	• Charge over our leasehold land and buildings, being the Batu Kawan Land • Personal guarantees by: o Dato' Ng Chai Eng o Lau Chee Kheong o Lim Taw Seong
Hong Leong Bank Berhad for facilities granted to UWHM consisting fixed term loans, letters of credit, trust receipt, bankers' acceptance and bank guarantee	• Charge over our leasehold land and buildings, being the Batu Kawan Land • Corporate guarantee by UMediC • Personal guarantees by: o Dato' Ng Chai Eng o Lau Chee Kheong o Lim Taw Seong o Ng Chin Aik
HSBC Bank (M) Berhad for facilities granted to UMediC consisting bank guarantees and import/export lines	• Personal guarantees by: o Dato' Ng Chai Eng o Lau Chee Kheong o Lim Taw Seong
Hitachi Capital Malaysia Sdn Bhd for hire purchase granted to UWHM	• Personal guarantees by: o Dato' Ng Chai Eng o Lau Chee Kheong o Lim Taw Seong o Ng Chin Aik

Details of bank borrowing	Securities provided
BMW Credit Malaysia Sdn Bhd for hire purchase granted to UWHM	• Personal guarantees by: o Dato' Ng Chai Eng o Lau Chee Kheong o Lim Taw Seong o Ng Chin Aik

We have not defaulted on any payment of either interest and/or principal sums in respect of any of our borrowings or lease liabilities for the Financial Years Under Review, Financial Periods Under Review and up to the LPD. We also do not encounter seasonality in the trend of our borrowings and there is no restriction on the use of our committed borrowings facilities.

As at the LPD, we are not in breach of any term and condition or covenant associated with our credit arrangements or bank borrowings which can materially affect our financial position, results of business operations, or the investment by holders of our Shares.

11.4.4 Material commitments

Save as disclosed below, as at the LPD, we do not have any other material commitment for capital expenditure, which upon becoming enforceable, may have a material effect on our financial position:

	RM'000
Capital expenditure in respect of purchase of property, plant and equipment	
▪ Approved and contracted for	83
▪ Approved but not contracted for	10,300
Total	**10,383**

The material commitments above are for the expansion of our manufacturing segment, which include the purchase of machineries as well as construction of a new factory building on the Batu Kawan Land. We expect to fund our material commitments above through our internally-generated fund and/or bank borrowings as well as RM10.30 million from the proceeds raised from our IPO.

Please refer to Sections 3.7 and 6.6 of this Prospectus for the details on the use of proceeds and our future plan and business strategies.

11.4.5 Contingent liabilities

As at the LPD, our Board confirms that there are no contingent liabilities, which upon becoming enforceable, may have a material adverse impact on our results of operations or financial position.

11.4.6 Material investments and divestitures

We have not undertaken any material divestiture during the Financial Years Under Review and Financial Periods Under Review.

Save as disclosed below, we have not undertaken any material investments during the Financial Years Under Review, FPE 2022 and up to the LPD:

	FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FPE 2022 RM'000	From 1 February 2022 up to the LPD RM'000
Material investments					
Leasehold land(i)	5,116	-	-	-	-
Plant and machinery	391	(ii)891	(ii)11,389	33	(ii)178
Production equipment	-	160	199	(iii)162	75
Furniture, fittings, office equipment and computer system	46	288	314	50	48
Moulds and simulator	57	-	362	-	25
Tools and equipment	-	-	17	126	-
Renovation	38	26	327	116	22
Leasehold building	-	(iv)5,071	(iv)1,763	69	-
Total	**5,648**	**6,436**	**14,371**	**556**	**348**

Notes:

(i) Being the purchase of the Batu Kawan Land from Penang Development Corporation by UMediC. Further details on the Batu Kawan Land are set out in Annexure A of this Prospectus.

(ii) Including capital work-in-progress for plant and machinery of approximately RM0.39 million and RM10.69 million for FYE 2020 and FYE 2021 respectively, as well as RM0.15 million for the period from 1 February 2022 up to the LPD.

(iii) Including capital work-in-progress for production equipment of approximately RM0.13 million.

(iv) Being the renovation and construction work-in-progress of the factory building on the Batu Kawan Land.

The material investments above were funded through a combination of internally generated funds and bank borrowings.

11.4.7 Material litigation or arbitration proceedings

As at the LPD, we are not engaged in any governmental, legal or arbitration proceedings, including those relating to bankruptcy, receivership or similar proceedings which may have or have had, material or significant effects on our financial position or profitability, in the past 12 months immediately preceding the date of this Prospectus.

11.4.8 Key financial ratios

The table below sets out our Group's key financial ratios for the Financial Years Under Review and Financial Periods Under Review:

	As at 31 July			As at 31 January	
	2019	2020	2021	2021	2022
Trade receivables turnover period[(i)] (days)	60	59	102	32	35
Trade payables turnover period[(ii)] (days)	18	39	62	82	20
Inventory turnover period[(iii)] (days)	126	126	171	180	66
Current ratio[(iv)] (times)	1.03	1.34	1.23	1.06	1.63
Gearing ratio[(v)] (times)	0.41	2.46	1.67	2.16	0.99

Notes:

(i) Trade receivables turnover period is computed based on trade receivables over revenue for the respective financial year/period multiplied by the number of days in respective financial year/period.

(ii) Trade payables turnover period is computed based on trade payables over cost of sales for the respective financial year/period multiplied by the number of days in respective financial year/period.

(iii) Inventory turnover period is computed based on inventories over cost of sales for the respective financial year/period multiplied by the number of days in respective financial year/period.

(iv) Current ratio is computed based on total current assets over total current liabilities as at the end of the respective financial year/period.

(v) Gearing ratio is computed based on total borrowings (including lease liabilities owing to financial institutions) over total equity as at the end of the respective financial year/period.

(i) Trade receivables turnover period

	As at 31 July			As at 31 January	
	2019	2020	2021	2021	2022
	RM'000	RM'000	RM'000	RM'000	RM'000
Trade receivables	2,685	3,827	9,516	2,428	6,930
Revenue	16,422	23,676	34,116	14,154	36,855
Trade receivables turnover period[(i)] (days)	60	59	102	32	35

Note:

(i) Trade receivables turnover period is computed based on trade receivables over revenue for the respective financial year/period multiplied by the number of days in respective financial year/period.

The normal credit term granted to our customers generally ranges from 30 days to 90 days. Other credit terms are assessed and approved on a case-by-case basis after taking into consideration various factors such as the background and creditworthiness (including payment history) of the customers, our business relationship with the customers as well as transaction volume and value.

Our trade receivables turnover period for FYEs 2019 to 2020 were consistent at between 59 days to 60 days, and were within the normal credit term granted to our customers.

Our trade receivables turnover period of approximately 102 days for FYE 2021 was higher than the normal credit term granted to our customers which was mainly due to higher sales to our customers in the last quarter of FYE 2021, amounting to approximately RM13.97 million (last quarter of FYE 2020: approximately RM7.14 million).

Our trade receivables turnover period for FPE 2022 reduced to 35 days which was within normal credit term granted to our customers. The decrease in trade receivables turnover period was mainly due to better collection from our customers during the period. As at 31 January 2022, our Group has collected approximately 81.20% of our total revenue for FPE 2022.

The ageing analysis of our trade receivables as at 31 January 2022 and the subsequent collections and balance of our trade receivables as at the LPD are set out below:

		Exceeding credit period			
	Within credit period	**Not more than 60 days**	**Between 61 to 120 days**	**More than 120 days**	**Total**
Net trade receivables as at 31 January 2022 (RM'000)	2,026	1,652	2,744	508	(i)6,930
% of total trade receivables	29.24	23.84	39.60	7.32	100.00
Subsequent collections up to and including the LPD (RM'000)	2,008	1,614	2,667	495	6,784
Trade receivable net of subsequent collections (RM'000)	18	38	77	13	146
% of trade receivables net of subsequent collections	12.33	26.03	52.74	8.90	100.00

Note:

(i) After deducting the provision for impairment loss of trade receivables of approximately RM0.07 million. This provision for impairment loss of trade receivables was determined based on the expected credit losses model in accordance with MFRS 9 *Financial Instruments* on the outstanding receivables.

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As at 31 January 2022, our total trade receivables stood at approximately RM6.93 million, representing approximately 18.80% of our total revenue for FPE 2022. Approximately RM4.90 million or 70.76% of our trade receivables exceeded the normal credit period. This was mainly due to delays in payment from certain of our customers in the public and private hospitals sector. As the medical devices that our Group distribute are deemed critical medical devices, our Group has taken the decision to allow our customers such as public and private hospitals (after evaluating their payment history, credentials as well as their established long-term relationships with our Group) access to these critical medical devices on an immediate basis. As such, it may be so that certain customers only secure banking facilities or obtain internal clearance for the payment of the medical devices after receipt of the invoice from our Group thus leading to the trade receivables exceeding the normal credit period. Approximately RM1.97 million out of our total amount of trade receivables exceeded the normal credit period of approximately RM4.90 million was contributed by our major customers in FPE 2022.

As at the LPD, we have collected approximately RM6.78 million, representing approximately 97.89% of our total trade receivables as at 31 January 2022. We are in the midst of collecting the remaining outstanding trade receivables of approximately RM0.15 million. Our Board is of the opinion that the remaining outstanding trade receivables are recoverable after taking into consideration these customers' payment history, credentials as well as their established long-term relationships with us. We have taken constant effort to recover the outstanding amount including follow-up calls and correspondences.

We have a credit control policy in place and the exposure to credit risk is monitored on an ongoing basis. As part of our credit control policy, our Group assesses whether any of the trade receivables are credit impaired on a quarterly basis based on operating performance of the customers, changes in contractual terms, payment trends and past due information. Our Group provides for impairment losses of trade receivables on a simplified approach in accordance with MFRS 9.

Save for the impairment loss of trade receivables of approximately RM0.16 million, RM0.01 million and RM0.01 million in FYE 2019, FYE 2020 and FYE 2021 respectively, there were no other impairment of trade receivables for the Financial Years Under Review and Financial Periods Under Review. The aforesaid impairment loss of trade receivable was determined based on the expected credit losses model in accordance with MFRS 9 *Financial Instruments*.

(ii) Trade payables turnover period

	As at 31 July			**As at 31 January**	
	2019	**2020**	**2021**	**2021**	**2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Trade payables	542	1,745	3,643	3,909	2,643
Cost of sales	10,719	16,242	21,553	8,724	23,944
Trade payables turnover period(i) (days)	18	39	62	82	20

Note:

(i) Trade payables turnover period is computed based on trade payables over cost of sales for the respective financial year/period multiplied by the number of days in respective financial year/period.

The normal credit term granted to us by our suppliers/principals typically ranges from 30 days to 90 days. It is our practice to make prompt payment to our suppliers/principals in order to maintain good business relationships with our suppliers/principals and safeguard the continuity of our supplies.

Our trade payables turnover period for FYEs 2019 to 2021 and FPE 2022 were within the normal credit term granted by our suppliers/principals.

Our trade payables turnover period of approximately 18 days for FYE 2019 as we paid in advance to certain of our suppliers/principals for the purchase of the distribution products in order to secure a better pricing.

Our trade payables turnover period increased from approximately 18 days for FYE 2019 to approximately 39 days for FYE 2020 as we managed to negotiate a credit term for the purchase of the distribution products from certain of our suppliers/principals who had previously requested for partial payment to be made in cash upon the invoice being issued and for full payment upon delivery of the products. There was also an increase in purchase of distribution products and raw materials towards the end of FYE 2020 to cater for the anticipated increase in our Group's sales in the forthcoming financial year.

Our trade payables turnover period increased from approximately 39 days for FYE 2020 to approximately 62 days for FYE 2021. This was mainly due to higher purchase of distribution products and raw materials towards the end of FYE 2021 to cater for the anticipated increase in our Group's sales in the forthcoming financial year. In addition, it is also our effort in working capital management to match the timing of payment to our suppliers/principals and collection from our customers.

Our trade payables turnover period decreased to approximately 20 days for FPE 2022 as we paid in advance to certain of our suppliers/principals for the purchase of the distribution products in order to secure a better pricing.

The ageing analysis of our trade payables as at 31 January 2022 and the subsequent payments and balance of our trade payables as at the LPD are set out below:

		Exceeding credit period			**Total**
	Within credit period	**Not more than 60 days**	**Between 61 to 120 days**	**More than 120 days**	
Trade payables as at 31 January 2022 (RM'000)	2,489	152	2	-	2,643
% of total trade payables	94.17	5.75	0.08	-	100.00
Subsequent payments up to and including the LPD (RM'000)	2,489	152	2	-	2,643
Outstanding trade payables as at the LPD (RM'000)	-	-	-	-	-
% of trade payables net of subsequent payments	-	-	-	-	-

Note:

* Less than RM1,000.

As at 31 January 2022, our total trade payables stood at approximately RM2.64 million, of which approximately RM0.15 million or 5.83% of our trade payables exceeded the normal credit period. This was mainly due to some of the suppliers'/principals' billing invoices only after our Group's monthly payment cut-off date. However, as at the LPD, we have settled all of our trade payables which were outstanding as at 31 January 2022.

We have not been involved in any dispute with any of our suppliers/principals nor has any legal action been initiated by our suppliers/principals on us during the Financial Years Under Review, Financial Periods Under Review and up to the LPD.

(iii) Inventory turnover period

	As at 31 July			As at 31 January	
	2019	2020	2021	2021	2022
	RM'000	RM'000	RM'000	RM'000	RM'000
Inventories:					
Raw materials	187	618	674	686	1,103
Work-in-progress	116	54	-	-	-
Finished goods(i)	3,405	4,918	9,442	7,837	7,500
Total	**3,708**	**5,590**	**10,116**	**8,523**	**8,603**
Cost of sales	10,719	16,242	21,553	8,724	23,944
Inventory turnover period(ii) (days)	126	126	171	180	66

Notes:

(i) Including demonstration units, which are loaned to our customers for testing purposes, amounting to approximately RM0.76 million, RM1.13 million, RM2.06 million, RM1.49 million and RM0.13 million for FYEs 2019, 2020, 2021, FPEs 2021 and 2022 respectively.

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11. FINANCIAL INFORMATION *(CONT'D)*

The details of the demonstration units loaned to our customers for the Financial Years Under Review and Financial Periods Under Review are as follows:

Type of medical devices	Tenure of loan (weeks)	Number of units				
		FYE 2019	**FYE 2020**	**FYE 2021**	**FPE 2021**	**FPE 2022**
Patient monitors	4 to 12	2	5	6	5	2
Ventilators	1 to 4	2	0	18	13	1
Furniture	4 to 6	10	13	3	6	2
Maternal and infant care	4 to 6	-	-	4	2	-
Defibrillators	4 to 12	7	6	2	1	1
Ultrasound machines	12	-	4	3	3	1
General anaesthesia machines	12	1	-	-	-	-
Total		**22**	**28**	**36**	**30**	**7**

For information purposes, we do not generate any income from loaning the demonstration units to our customers for testing purposes. In the event the demonstration units loaned to our customers are faulty or damaged during the tenure of the loan, our customers will bear the necessary repair costs, in the event the fault or damage is caused by them. Subsequently, these demonstration units will be sold to them after the loan period.

(ii) Inventory turnover period is computed based on inventories over cost of sales for the respective financial year/period multiplied by the number of days in respective financial year/period.

It is our Group's general practice to maintain adequate level of raw materials to reduce the risk of disruption to our manufacturing operation as well as adequate level of distribution products, all of which are aimed to meet our customers' demand and ensure timely delivery of our manufactured and distribution products.

Our inventory turnover period for FYEs 2019 and 2020 were consistent at approximately 126 days.

Our inventory turnover period increased from approximately 126 days in FYE 2020 to approximately 171 days in FYE 2021. This was mainly attributable to higher purchase of distribution products and raw materials in anticipation of higher demand for our Group's products in FYE 2022 after taking into consideration, amongst others, the sales orders received towards the end of FYE 2021. In addition, as there is a shortage worldwide due to the COVID-19 pandemic, our Group kept certain medical devices as inventory in order to minimise disruptions.

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The inventory turnover period ranged from approximately 126 days to approximately 171 days for the Financial Years Under Review was mainly due to the loan of demonstration units to our Group's customers prior to them securing banking facilities from the leasing companies or obtaining internal clearance to issue purchase orders. We will subsequently sell these demonstration units to our customers after the loan period. After excluding the demonstration units from the inventory, the inventory turnover period reduced to approximately 100 days for FYEs 2019 and 2020 and approximately 136 days for FYE 2021.

Our inventory turnover period decreased from approximately 171 days in FYE 2021 to approximately 66 days in FPE 2022. This was mainly attributable to higher sales of medical devices. After excluding the demonstration units from the inventory, the inventory turnover period reduced to approximately 65 days for FPE 2022.

We review our slow moving/obsolete inventories of more than 12 months by adopting a specific identification approach which requires our management to consider the shelf life and frequency of demand of our inventories. As our management's judgement and estimates are required, possible changes in these estimates could result in impairment to the inventories.

We are of the opinion that there are no material slow moving/obsolete inventories as at the LPD premised on the following:

(i) our distribution products are primarily patient monitors, defibrillators/AEDs and ventilators, which are long-lasting in nature; and

(ii) we have not experienced any significant impairment of inventories throughout the Financial Years Under Review and Financial Periods Under Review.

(iv) Current ratio

	Audited			Unaudited	Audited
	31 July 2019	**31 July 2020**	**31 July 2021**	**31 January 2021**	**31 January 2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Current assets	8,662	16,739	23,319	14,261	22,563
Current liabilities	8,393	12,519	18,937	13,517	13,848
Current ratio[(i)] (times)	1.03	1.34	1.23	1.06	1.63

Note:

(i) Current ratio is computed based on total current assets over total current liabilities as at the end of the respective financial year/period.

Current ratio measures our Group's liquidity and our ability to meet our short term obligations. Our current ratio increased from 1.03 times as at 31 July 2019 to 1.34 times as at 31 July 2020 mainly due to an increase in our current assets of approximately RM8.08 million or 93.25% which was mainly attributable to the increase in our trade and other receivables as well as cash and bank balances as compared to the increase in our current liabilities of approximately RM4.13 million or 49.16% which was mainly attributable to the increase in our short term bank borrowings.

Our current ratio decreased from 1.34 times as at 31 July 2020 to 1.23 times as at 31 July 2021 mainly due to the increase in our current liabilities of approximately RM6.42 million or 51.27% which was mainly attributable to the increase in our short term bank borrowings (i.e. increase in bankers' acceptance of approximately RM4.93 million for working capital purposes and term loan of approximately RM0.73 million to part finance the purchase of machinery and equipment and for working capital purposes) as compared to the increase in our current assets of approximately RM6.58 million or 39.31% which was mainly attributable to the increase in our inventories and trade and other receivables.

Our current ratio increased to 1.63 times as at 31 January 2022 mainly due to the decrease in our current liabilities of approximately RM5.09 million or 26.87% which was mainly attributable to the decrease in our short term bank borrowings (i.e. decrease in bankers' acceptance of approximately RM5.50 million for working capital purposes and term loan of approximately RM0.17 million to part finance the purchase of machinery and equipment and for working capital purposes) as compared to the decrease in our current assets of approximately RM0.76 million or 3.24% which was mainly attributable to the decrease in our inventories and trade receivables and was partially offset by increase in cash and bank balances.

(v) Gearing ratio

	As at 31 July			**As at 31 January**	
	2019	**2020**	**2021**	**2021**	**2022**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Total borrowings(i)	2,173	16,305	26,313	20,751	20,179
Total equity	5,278	6,632	15,739	9,587	20,310
Gearing ratio(ii) (times)	0.41	2.46	1.67	2.16	0.99

Notes:

(i) Comprises term loan, bankers' acceptance and lease liabilities owing to financial institutions.

(ii) Gearing ratio is computed based on total borrowings over total equity as at the end of the respective financial year/period.

Our gearing ratio increased from 0.41 times as at 31 July 2019 to 2.46 times as at 31 July 2020 mainly due to the increase in our bank borrowings of approximately RM14.13 million. This was mainly attributable to the increase in the following:

(a) term loans of approximately RM9.29 million which was mainly used for the acquisition of the Batu Kawan Land and construction of the building on the said land; and

(b) bankers' acceptance of approximately RM4.53 million which was used for the working capital purposes.

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The total borrowings of our Group increased from approximately RM16.31 million in FYE 2020 to approximately RM26.31 million in FYE 2021. The increase was mainly due to the following:

1. increase in term loan of approximately RM4.70 million mainly to part finance the construction cost, purchase of machinery and equipment and working capital purposes; and

2. increase in bankers' acceptance of approximately RM4.93 million for working capital purposes.

Our gearing ratio decreased from 2.46 times as at 31 July 2020 to 1.67 times as at 31 July 2021. This was mainly due to increase in our total equity of approximately RM9.11 million which was mainly attributable to the increase in our share capital of approximately RM4.02 million and profits generated during the FYE 2021 of approximately RM5.09 million.

Our gearing ratio decreased to 0.99 times as at 31 January 2022. This was mainly due to increase in our total equity of approximately RM4.57 million (i.e. profits generated during the FPE 2022) coupled with the decrease in bank borrowings of approximately RM6.13 million.

11.4.9 Types of financial instruments used

As at the LPD, save for bank borrowings as disclosed in Section 11.4.3 of this Prospectus, we do not have or use any financial instruments. We finance our operations mainly through cash generated from our operations, credit extended by our suppliers/principals as well as external borrowings from financial institutions. The principal usage of these bank borrowings are for working capital purposes, which include, amongst others, the purchases of distribution products, raw materials, and payments to our employees and other suppliers/principals as well as to fund our capital expenditure as set out in Section 11.4.4 of this Prospectus.

However, from accounting perspective, financial instruments comprise of deposits with financial institutions, cash and bank balances, trade and other receivables, trade and other payables as well as borrowings as shown in our combined statements of financial position. These financial instruments are used in our ordinary course of business.

11.4.10 Treasury policies and objectives

Our main treasury policy is to maintain sufficient working capital to finance our operations, coupled with adequate credit facilities to meet the estimated commitments arising from our operational expenditures and financial liabilities. Our principal sources of liquidity are our cash and bank balances, cash generated from our operations and borrowings from financial institutions.

In our ordinary course of business, we deal with customers and suppliers/principals from both local and overseas markets, where transactions are denominated in both local currency as well as foreign currencies. We maintain bank accounts mainly in RM and USD, such that collections can be used to settle payments of same currency where possible. This provides a natural hedge against fluctuations in the foreign exchange and mitigates our exposure to foreign exchange risks. We may consider other hedging instruments such as derivatives contracts available in the financial markets to hedge against foreign exchange risks should the need arise.

Our operations were not subject to any material impact arising from interest rate fluctuations throughout the Financial Years Under Review and Financial Periods Under Review. Accordingly, we have not entered into any financial instrument to hedge against the fluctuations in the interest rate. We manage our exposure to interest rate fluctuations by maintaining a combination of fixed rate and floating rate borrowings.

Our Group monitors the adequacy of capital on an ongoing basis. Our strategy is to maintain the debt-to-equity ratio at an optimal level based on our business requirements and prevailing economic conditions. It is also the responsibility of our Directors to identify, quantify, monitor and control the key risks (credit, liquidity, currency and interest rate) associated with these activities.

11.5 TREND INFORMATION

As at the LPD, our Board confirms that there are no:

(i) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have a material favourable or unfavourable impact on the financial performance, position and operations of our Group other than those disclosed in this Section and in Sections 6 and 8 of this Prospectus;

(ii) material commitment for capital expenditure, save as set out in Section 11.4.4 of this Prospectus;

(iii) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group, save as disclosed in this Section and in Sections 6 and 8 of this Prospectus;

(iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our Group's total revenue and/or profits as well as our Group's liquidity and capital resources, save for those that have been disclosed in this Section and in Sections 6 and 8 of this Prospectus; and

(v) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our historical financial statements not indicative of the future financial performance and position other than those disclosed in this Section and in Sections 6 and 8 of this Prospectus.

11.6 SIGNIFICANT CHANGES

There are no other significant changes that have occurred which may have a material effect on the financial position and results of our Group since 31 January 2022 up to the date of this Prospectus.

11.7 ORDER BOOK

Due to the nature of our business, we do not maintain an order book. Our sales are based on confirmed orders from our customers and we do not have any long-term contracts with our customers.

We believe that our revenue/business operations are sustainable in the absence of long-term contracts, premised on the following:

(i) with around 20 years of cumulated market presence, we have established ourselves as a reputable distributor of medical devices and consumables. We have attained an understanding of our customers' needs and requirements and this has enabled us to source and/or develop the right products that meet their evolving needs;

(ii) we have maintained long-term relationships with our customers and we believe that these relationships have allowed us to secure orders from them in the past, and will allow us to continue securing orders from them in the future. Our long-term relationships with our customers have allowed us to develop our reputation in the medical device industry; and

(iii) the medical device industry in Malaysia is forecasted to grow at a CAGR of 12.1% from RM12.11 billion in 2021 to RM21.41 billion in 2026 based on the IMR Report.

11.8 DIVIDEND POLICY

Our Company presently does not have any formal dividend policy. However, it is the intention of our Board to retain adequate reserves for our future growth as well as to reward our shareholders with participation in the profits of our Group.

As we are a holding company, our ability to pay dividends will depend on the dividends or other distributions that we receive from our subsidiaries. The payment of dividends by our subsidiaries is dependent on their distributable profits, financial performance and cash flow requirements for operations and capital expenditures, the covenants in their existing loan agreements which prior written consent from the respective financial institutions are required for the payment of dividends of more than certain percentage of their respective PAT as well as other factors.

In addition to the factors above which may affect the ability of our subsidiaries to pay dividends to us, when recommending the actual dividends for approval by shareholders or when declaring any interim dividend, our Board will also consider, amongst others:

(i) the level of our cash, gearing, return on equity and retained profits;

(ii) our expected financial performance;

(iii) our working capital requirements;

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

(v) any restrictive covenants contained in our current and future financing arrangements; and

(vi) any material impact of tax laws and other regulatory requirements.

Save for certain banking restrictive covenants which our subsidiaries are subject to, there is no other dividend restriction imposed on our subsidiaries as at the LPD.

11. FINANCIAL INFORMATION *(CONT'D)*

For information purposes, the table below sets out the dividend pay-out ratio of our Group for the Financial Years Under Review and Financial Periods Under Review:

	Audited			Unaudited	Audited
	2019	**2020**	**2021**	**2021**	**2022**
Dividend declared (RM'000)	300	1,265	-	-	-
PAT (RM'000)	1,319	2,419	5,087	2,155	4,572
Dividend pay-out ratio	22.74	52.29	-	-	-

Save as disclosed above, there is no dividend paid or declared subsequent to 31 January 2022 but prior to our Listing.

The level of dividends should also not be treated as an indication of our Group's future dividend policy. There can be no assurance that dividends will be paid out in the future or on timing of any dividends that are to be paid in the future.

Any declarations and payment of dividends in the future will be at the discretion of our Board. No inference should or can be made from any of the statements above as to our actual future profitability and our ability to pay dividends in the future.

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11.9 REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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10050 Penang
Malaysia
SST No: P11-1809-32000112

The Board of Directors
UMediC Group Berhad
PMT 790, Jalan Cassia Selatan 5/2
Taman Perindustrian Batu Kawan
14110 Bandar Cassia
Pulau Pinang

Date: 13 JUN 2022

Our ref: BDO/KTH/LSX/BLH

Dear Sir/Madam

UMediC Group Berhad ("UMC" or "the Company") and its subsidiaries ("UMC Group", "Pro Forma Group" or "the Group")

Report on Compilation of the Pro Forma Consolidated Statements of Financial Position as at 31 January 2022 ("This Report")

We have completed our assurance engagement to report on the compilation of the Pro Forma Consolidated Statements of Financial Position of the Group prepared by the Board of Directors of the Company ("Board of Directors"). The Pro Forma Consolidated Statements of Financial Position as at 31 January 2022 together with the accompanying notes thereon, for which we have stamped for the purpose of identification only, have been prepared for inclusion in the prospectus ("the Prospectus") in connection with the admission to the Official List of Bursa Malaysia Securities Berhad and the listing of and quotation for the entire enlarged issued share capital of UMC on the ACE Market of Bursa Malaysia Securities Berhad.

The applicable criteria on the basis of which the Board of Directors has compiled the Pro Forma Consolidated Statements of Financial Position are described in Notes of the Pro Forma Consolidated Statements of Financial Position and are prepared in accordance with Chapter 9, Part II Division 1: Equity of the Prospectus Guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines").

The Pro Forma Consolidated Statements of Financial Position has been compiled by the Board of Directors to illustrate the impact of the transactions as set out in the Notes thereon to the Pro Forma Consolidated Statements of Financial Position as at 31 January 2022 had the transactions been effected as at 31 January 2022. As part of this process, information about the Group's consolidated financial position has been extracted by the Board of Directors from the subsidiaries' statements of financial position as at 31 January 2022.

Directors' Responsibility for the Pro Forma Consolidated Statements of Financial Position

The Board of Directors is solely responsible for compiling the Pro Forma Consolidated Statements of Financial Position on the basis as described in the Notes of the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

Reporting Accountants' Independence and Quality Control

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

Reporting Accountants' Independence and Quality Control (continued)

Our firm applies International Standard on Quality Control 1 (ISQC 1), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the Pro Forma Consolidated Statements of Financial Position has been compiled, in all material respects, by the Board of Directors on the basis described in the Notes of the Pro Forma Consolidated Statements of Financial Position.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus,* issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Board of Directors has compiled, in all material respects, the Pro Forma Consolidated Statements of Financial Position on the basis set out in the Notes of the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Consolidated Statements of Financial Position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Consolidated Statements of Financial Position.

The purpose of Pro Forma Consolidated Statements of Financial Position included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted statements of financial position of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions as at 31 January 2022, would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Consolidated Statements of Financial Position has been compiled, in all material respects, on the basis set out in Notes of the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines involves performing procedures to assess whether the applicable criteria on the basis used by the Board of Directors in the compilation of the Pro Forma Consolidated Statements of Financial Position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

(a) the related pro forma adjustments give appropriate effect to those criteria; and

(b) the Pro Forma Consolidated Statements of Financial Position reflect the proper application of those adjustments to the unadjusted statements of financial position.

Reporting Accountants' Responsibility (continued)

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the Pro Forma Consolidated Statements of Financial Position has been compiled and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Consolidated Statements of Financial Position.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Pro Forma Consolidated Statements of Financial Position of the Group has been compiled, in all material respects, on the basis described in the Notes of the Pro Forma Consolidated Statements of Financial Position and in accordance with the requirements of the Prospectus Guidelines.

Other Matters

This report has been prepared solely for the purpose stated above, in connection with the admission to the Official List of Bursa Malaysia Securities Berhad and the listing of and quotation for the entire enlarged issued share capital of UMC on the ACE Market of Bursa Malaysia Securities Berhad. As such, this report should not be used for any other purpose without our prior written consent. Neither the Firm nor any member or employee of the Firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Yours faithfully,

BDO PLT
LLP0018825-LCA & AF 0206
Chartered Accountants

Koay Theam Hock
02141/04/2023 J
Chartered Accountant

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME

1.1 Pro Forma Group

The Pro Forma Consolidated Statements of Financial Position of UMediC Group Berhad ("UMC" or "the Company") and its subsidiaries (collectively referred to as "UMC Group", "Pro Forma Group" or "the Group") as at 31 January 2022 together with the notes thereon, for which the Directors of the Company are solely responsible, have been prepared for illustrative purposes only for the purpose of inclusion in the Prospectus in connection with the listing of and quotation for the entire enlarged issued share capital of UMC on the ACE Market of Bursa Malaysia Securities Berhad.

1.2 Basis of Preparation

The Pro Forma Consolidated Statements of Financial Position of the Group has been prepared on the basis consistent with the format of the financial statements of the Group and the accounting policies adopted by the Group, in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRSs") and the requirements of the Prospectus Guidelines issued by the Securities Commission Malaysia.

The audited consolidated financial statements of UMC and its subsidiaries for the financial period ended 31 January 2022 were not subject to any audit qualification.

The Group is regarded as a continuing entity resulting from the reorganisation exercise because the management of all the entities within the Group, which took part in the reorganisation exercise, was under the common control before and immediately after the reorganisation exercise. The Group has applied the merger method of accounting on a retrospective basis as if the merger had been effected throughout the current financial period.

The Pro Forma Consolidated Statements of Financial Position, because of its nature, may not reflect the Group's actual financial position. Further, such information does not predict the Group's future financial position.

The Pro Forma Consolidated Statements of Financial Position of the Group comprises Pro Forma Consolidated Statements of Financial Position as at 31 January 2022, adjusted for the impact of the Listing Scheme as set out in Note 1.3 to the Pro Forma Consolidated Statements of Financial Position.

1. PRO FORMA GROUP, BASIS OF PREPARATION AND LISTING SCHEME (continued)

1.3 Listing Scheme

In conjunction with and as an integral part of the listing of and quotation for the entire enlarged issued share capital of UMC on the ACE Market of Bursa Malaysia Securities Berhad, the Company had proposed to undertake the following transactions:

1.3.1 Initial Public Offering ("IPO")

(a) Public issue

Public issue of 97,224,300 new ordinary shares in UMC ("Shares") representing 26% of the enlarged number of issued shares of the Company, at an issue price of RM0.32 per Share.

(b) Listing

Admission to the Official List of Bursa Malaysia Securities Berhad and the listing of and quotation for the Company's entire enlarged issued share capital of RM44,322,062 comprising 373,910,000 Shares on the ACE Market of Bursa Securities.

1.3.2 Use of Proceeds from IPO

The gross proceeds from the IPO of RM31,111,776 are expected to be used as per Prospectus are in the following manner:

	RM'000
Capital expenditure	
(i) Construction of new factory building	3,500
(ii) Setting up new marketing and distribution offices	6,800
Repayment of bank borrowings (including lease liabilities owing to financial institutions)	9,000
Working capital	8,662
Estimated listing expenses#	3,150
	31,112

The estimated listing expenses totaling RM3,150,000 to be borne by the Company comprise, amongst others, underwriting, placement and brokerage fees, professional fees and miscellaneous expenses, of which RM1,331,000 had been incurred and charged to the statement of profit or loss and other comprehensive income of the Group up to 31 January 2022. A total of RM624,000 is assumed to be directly attributable to the IPO and as such, will be debited against the share capital of the Company and the remaining expenses of RM1,195,000 are assumed to be attributable to the Listing and as such, will be expensed off to the statement of profit or loss and other comprehensive income.

Stamped for the purpose of identification only.
13 JUN 2022
BDO PLT
(LLP0018825-LCA & AF 0206)
Chartered Accountants
Penang

2. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2022

The Pro Forma Consolidated Statements of Financial Position as at 31 January 2022 has been prepared for illustrative purposes only to show the effects on the audited Consolidated Statements of Financial Position of UMC as at 31 January 2022 based on the assumptions that the Listing Scheme as set out in Note 1.3 to the Pro Forma Consolidated Statements of Financial Position respectively had been effected on 31 January 2022.

	Note	As at 31 January 2022 RM'000	Adjustments for IPO RM'000	Pro Forma I After IPO RM'000	Adjustments for Use of Proceeds from the IPO RM'000	Pro Forma II After Pro Forma I and Use of Proceeds from the IPO RM'000
ASSETS						
Non-current assets						
Property, plant and equipment		20,150	-	20,150	-	20,150
Right-of-use assets		6,187	-	6,187	-	6,187
		26,337	-	26,337	-	26,337
Current assets						
Inventories		8,603	-	8,603	-	8,603
Trade and other receivables		7,838	-	7,838	-	7,838
Current tax asset		513	-	513	-	513
Cash and bank balances	2.2.1	5,609	31,112	36,721	(10,819)	25,902
		22,563	31,112	53,675	(10,819)	42,856
TOTAL ASSETS		48,900	31,112	80,012	(10,819)	69,193
EQUITY AND LIABILITIES						
Equity attributable to owners of the parent						
Share capital	2.2.2	13,834	31,112	44,946	(624)#	44,322
Reserves	2.2.2	6,476	-	6,476	(1,195)#	5,281
		20,310	31,112	51,422	(1,819)	49,603

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2. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2022 (continued)

	Note	As at 31 January 2022 RM'000	Adjustments for IPO RM'000	Pro Forma I After IPO RM'000	Adjustments for Use of Proceeds from the IPO RM'000	Pro Forma II After Pro Forma I and Use of Proceeds from the IPO RM'000
LIABILITIES						
Non-current liabilities						
Borrowings	2.2.3	13,498	-	13,498	(8,010)	5,488
Lease liabilities	2.2.4	688	-	688	(678)	10
Government grant		442	-	442	-	442
Deferred tax liabilities		114	-	114	-	114
		14,742	-	14,742	(8,688)	6,054
Current liabilities						
Trade and other payables		5,615	-	5,615	-	5,615
Borrowings	2.2.3	5,700	-	5,700	(190)	5,510
Lease liabilities	2.2.4	319	-	319	(122)	197
Government grant		50	-	50	-	50
Current tax liabilities		2,164	-	2,164	-	2,164
		13,848	-	13,848	(312)	13,536
TOTAL LIABILITIES		28,590	-	28,590	(9,000)	19,590
TOTAL EQUITY AND LIABILITIES		48,900	31,112	80,012	(10,819)	69,193
Net assets (RM'000)		20,310		51,422		49,603
Number of ordinary shares assumed in issue ('000)		276,686		373,910		373,910
Net assets attributable to equity holders per ordinary share (RM)		0.07		0.14		0.13

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13 JUN 2022
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Penang

\# *The estimated listing expenses totaling RM3,150,000 to be borne by the Company comprise, amongst others, underwriting, placement and brokerage fees, professional fees and miscellaneous expenses, of which RM1,331,000 had been incurred and charged to the statement of profit or loss and other comprehensive income of the Group up to 31 January 2022. A total of RM624,000 is assumed to be directly attributable to the IPO and as such, will be debited against the share capital of the Company and the remaining expenses of RM1,195,000 are assumed to be attributable to the Listing and as such, will be expensed off to the statement of profit or loss and other comprehensive income.*

2. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2022 (continued)

2.1 Pro Forma Adjustments to the Pro Forma Consolidated Statements of Financial Position

2.1.1 Pro Forma I

Pro forma I is stated after incorporating the effects of the completion of the IPO as set out in Note 1.3.1 to the Pro Forma Consolidated Statements of Financial Position.

2.1.2 Pro Forma II

Pro forma II is stated after incorporating the effects of Pro Forma I and effect after the use of proceeds from the IPO as set out in Note 1.3.2 to the Pro Forma Consolidated Statements of Financial Position.

2.2 Notes to the Pro Forma Consolidated Statements of Financial Position

2.2.1 Cash and Bank Balances

The movements of cash and bank balances are as follows:

	RM'000
As at 31 January 2022	5,609
IPO	31,112
Pro Forma I	**36,721**
Use of proceeds from the IPO	
- Repayment of bank borrowings (including lease liabilities owing to financial institutions)	(9,000)
- Estimated listing expenses	(1,819)
Pro Forma II	**25,902**

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Chartered Accountants
Penang

2. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2022 (continued)

2.2 Notes to the Pro Forma Consolidated Statements of Financial Position (continued)

2.2.2 Share Capital and Reserves

(a) The movements in the share capital and reserves are as follows:

	Share capital RM'000	Reserves # RM'000	Total RM'000
As at 31 January 2022	13,834	6,476	20,310
IPO	31,112	-	31,112
Pro forma I	**44,946**	**6,476**	**51,422**
Use of proceeds from the IPO - Estimated listing expenses	(624)	(1,195)	(1,819)
Pro forma II	**44,322**	**5,281**	**49,603**

 # Reserves comprise reorganisation debit reserve and retained earnings as follows:

	Reorganisation debit reserve RM'000	*Retained earnings RM'000*	*Total RM'000*
As at 31 January 2022	*(6,852)*	*13,328*	*6,476*
IPO	-	-	-
Pro Forma I	***(6,852)***	***13,328***	***6,476***
Use of proceeds from the IPO *- Estimated listing expenses*	-	*(1,195)*	*(1,195)*
Pro Forma II	***(6,852)***	***12,133***	***5,281***

2. PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS AT 31 JANUARY 2022 (continued)

2.2 Notes to the Pro Forma Consolidated Statements of Financial Position (continued)

2.2.2 Share Capital and Reserves (continued)

(b) Upon completion of the Listing Scheme as mentioned in Note 1.3 to the Pro Forma Consolidated Statements of Financial Position respectively, the enlarged issued share capital of the Company will be RM44,322,062 comprising 373,910,000 Shares.

2.2.3 Borrowings

The movements of borrowings are as follows:

	RM'000
As at 31 January 2022	19,198
IPO	-
Pro Forma I	**19,198**
Use of proceeds from the IPO - Repayment of bank borrowings	(8,200)
Pro Forma II	**10,998**

2.2.4 Lease liabilities

The movements of lease liabilities are as follows:

	RM'000
As at 31 January 2022	1,007
IPO	-
Pro Forma I	**1,007**
Use of proceeds from the IPO - Repayment of lease liabilities	(800)
Pro Forma II	**207**

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13 JUN 2022
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Penang

APPROVED BY THE BOARD OF DIRECTORS

The Pro Forma Consolidated Statements of Financial Position as at 31 January 2022 has been approved and adopted by the Board of Directors of the Company in accordance with a resolution dated 13 JUN 2022

Signed on behalf of the Board of Directors,

…………………………………………
LIM TAW SEONG
DIRECTOR

Penang
Date: 13 JUN 2022

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13 JUN 2022
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UMediC Group Berhad
Accountants' Report

The Board of Directors
UMediC Group Berhad
PMT 790, Jalan Cassia Selatan 5/2
Taman Perindustrian Batu Kawan
14110 Bandar Cassia
Pulau Pinang

Date: 13 JUN 2022
Our ref: KTH/LSX/BLH

Dear Sir/Madam

Reporting Accountants' Opinion on the Financial Information Contained in the Accountants' Report of UMediC Group Berhad ("UMC" or "the Company")

We have audited the financial information of UMC and its subsidiaries ("the Group"). The financial information comprises:

(a) The combined statements of financial position as at 31 July 2019, 31 July 2020 and 31 July 2021 of Actimed Healthcare Sdn. Bhd., Evo Medik Sdn. Bhd., U Medihealth Sdn. Bhd., UMediC Healthcare Sdn. Bhd., UWHC Sdn. Bhd. and UWHM Sdn. Bhd. and combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of Actimed Healthcare Sdn. Bhd., Evo Medik Sdn. Bhd., U Medihealth Sdn. Bhd., UMediC Healthcare Sdn. Bhd., UWHC Sdn. Bhd. and UWHM Sdn. Bhd. for the financial years ended 31 July 2019, 31 July 2020 and 31 July 2021;

(b) The consolidated statements of financial position as at 31 January 2022 of the Group and consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows of the Group for the financial period ended 31 January 2022;

(c) A summary of significant accounting policies and other explanatory information, as set out in this Report.

This historical financial information has been prepared for inclusion in the prospectus of the Company ("Prospectus") in connection with the admission of UMC to the Official List of Bursa Malaysia Securities Berhad and listing of and quotation for the enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad. This report is given for the purposes of complying with the Prospectus Guidelines issued by the Securities Commission Malaysia and for no other purpose.

In our opinion, the financial information gives a true and fair view of the financial position of the Group as at 31 July 2019, 31 July 2020, 31 July 2021 and 31 January 2022, and of their financial performance and their cash flows for each of the financial years/period ended 31 July 2019, 31 July 2020, 31 July 2021 and 31 January 2022 in accordance with the Malaysian Financial Reporting Standards ("MFRSs") and International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

Directors' Responsibility for the Financial Information

The Directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with MFRSs and IFRSs. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial information that are free from material misstatement, whether due to fraud or error.

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

Reporting Accountants' Responsibilities for the Audit of the Financial Information

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

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

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

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Group;

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

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

BDO

UMediC Group Berhad
Accountants' Report

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

As part of an audit in accordance with approved standards on auditing in Malaysia and ISAs we exercise professional judgement and maintain professional scepticism throughout the audit. We also (continued):

(e) Evaluate the overall presentation, structure and content of the financial information of the Group, including the disclosures, and whether the financial information of the Group represent the underlying transactions and events in a manner that achieves fair presentation; and

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

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

Other Matters

This report is made solely to the Directors of the Company and for inclusion in the Prospectus to be issued in connection with the admission of UMC to the Official List of Bursa Malaysia Securities Berhad and the listing of and quotation for the entire enlarged issued share capital of the Company on the ACE Market of Bursa Malaysia Securities Berhad and for no other purpose. We do not assume responsibility to any other person for the content of this opinion.

BDO PLT

BDO PLT
LLP0018825-LCA & AF 0206
Chartered Accountants

Koay Theam Hock
02141/04/2023 J
Chartered Accountant

Penang
Dated: 13 JUN 2022

ACCOUNTANTS' REPORT ("THIS REPORT")

1. INTRODUCTION

This Report has been prepared by BDO PLT, an approved company auditor, for inclusion in the Prospectus of UMediC Group Berhad ("UMC" or "Company") in connection with the admission of UMC to the Official List of Bursa Malaysia Securities Berhad ("Bursa Securities") and the listing of and quotation for the entire enlarged issued share capital of UMC on the ACE Market of Bursa Securities (hereinafter defined as "the Listing"), and shall not be relied on for any other purposes. Details of the listing scheme are disclosed in Section 2 of this Report.

2. DETAILS OF THE LISTING SCHEME

In conjunction with and as an integral part of the Listing, the Company would undertake the following transactions:

2.1 Initial Public Offering ("IPO")

The IPO involves a public issue of 97,224,300 new ordinary shares in UMC ("Shares") representing approximately 26.00% of the enlarged total number of issued Shares of the Company.

2.2 Listing

Upon completion of the IPO, the entire enlarged issued share capital of UMC of RM44,322,062 comprising 373,910,000 Shares will be listed and quoted on the ACE Market of Bursa Securities.

3. GENERAL INFORMATION

UMC was incorporated in Malaysia under the Companies Act 2016 ("the Act") on 22 April 2021 as a private limited company. The Company was incorporated for the purpose of being an investment holding company and listing vehicle for the Group pursuant to the Listing. Subsequently, on 7 October 2021, UMC was converted to a public limited company and since then, assumed its current name of UMediC Group Berhad.

The registered office of the Company is located at 39, Irving Road, 10400 Georgetown, Penang.

For the purposes of the Listing, share transfer forms were executed for:

(i) the acquisition by the Company of the entire issued share capital in Actimed Healthcare Sdn. Bhd. ("Actimed") comprising 10,000 ordinary shares for a purchase consideration of RM1,498,520 which was satisfied via the issuance of 29,970,400 new Shares at an issue price of RM0.05 per Share. The acquisition of Actimed was completed on 28 September 2021.

(ii) the acquisition by the Company of the entire issued share capital in Evo Medik Sdn. Bhd. ("Evo Medik") comprising 100,000 ordinary shares for a purchase consideration of RM1,210,470 which was satisfied via the issuance of 24,209,400 new Shares at an issue price of RM0.05 per Share. The acquisition of Evo Medik was completed on 28 September 2021.

(iii) the acquisition by the Company of the entire issued share capital in U Medihealth Sdn. Bhd. ("U Medihealth") comprising 2,500 ordinary shares for a purchase consideration of RM160,835 which was satisfied via the issuance of 3,216,700 new Shares at an issue price of RM0.05 per Share. The acquisition of U Medihealth was completed on 28 September 2021.

(iv) the acquisition by the Company of the entire issued share capital in UMediC Healthcare Sdn. Bhd. ("UMediC") comprising 2,400,000 ordinary shares for a purchase consideration of RM6,098,815 which was satisfied via the issuance of 121,976,300 new Shares at an issue price of RM0.05 per Share. The acquisition of UMediC was completed on 28 September 2021.

3. GENERAL INFORMATION (continued)

For the purposes of the Listing, share transfer forms were executed for (continued):

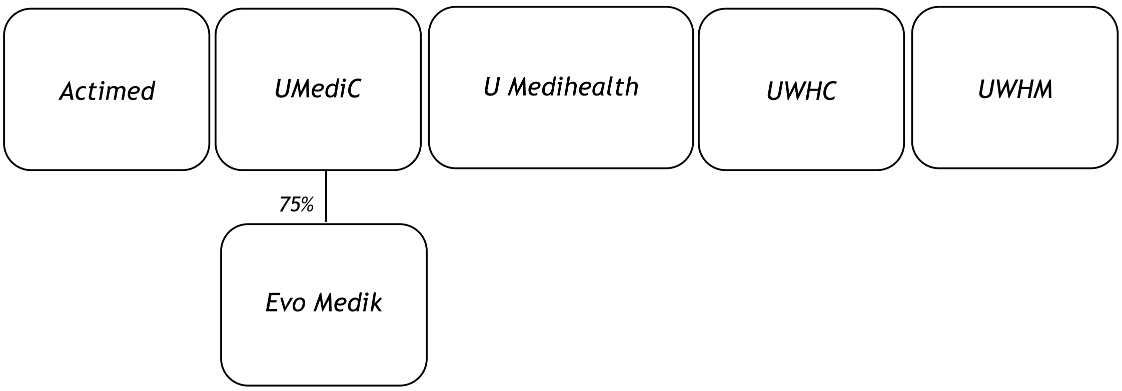
(v) the acquisition by the Company of the entire issued share capital in UWHC Sdn. Bhd. ("UWHC") comprising 50,000 ordinary shares for a purchase consideration of RM46,315 which was satisfied via the issuance of 926,300 new Shares at an issue price of RM0.05 per Share. The acquisition of UWHC was completed on 28 September 2021.

(vi) the acquisition by the Company of the entire issued share capital in UWHM Sdn. Bhd. ("UWHM") comprising 4,420,000 ordinary shares for a purchase consideration of RM4,819,300 which was satisfied via the issuance of 96,386,000 new Shares at an issue price of RM0.05 per Share. The acquisition of UWHM was completed on 28 September 2021.

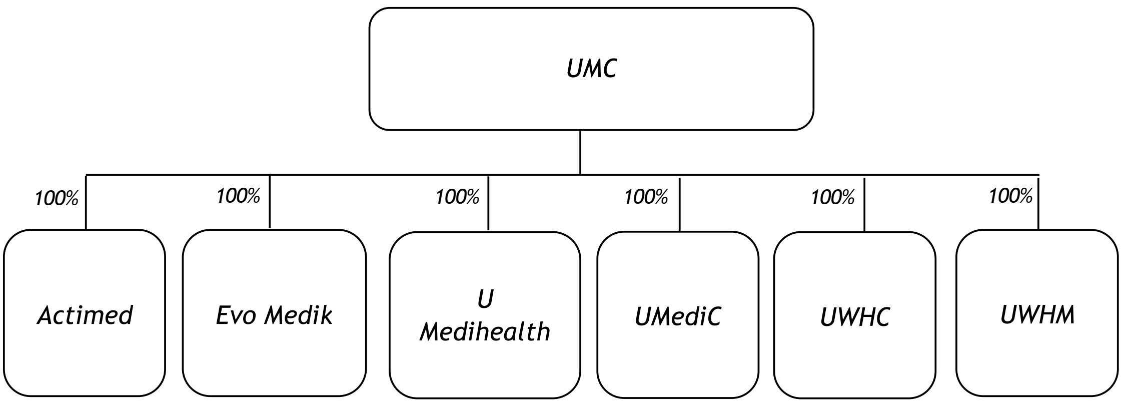
(collectively referred to as "Completed Transactions")

3.1 Group structure

The corporate structure prior to the Completed Transactions is as follows:



The corporate structure of UMC and its subsidiaries (hereinafter referred to as the "Group") following the Completed Transactions as at the date of this Report is as follows:



3. GENERAL INFORMATION (continued)

3.1 Group structure (continued)

The principal activity of the Company is investment holding. Details of the subsidiaries as at the date of this Report are as follows:

Subsidiaries	Date and place of incorporation	Issued share capital	Effective equity interest	Principal activities
Actimed	20 June 2003 Malaysia	RM10,000	100%	Marketing and distribution of medical devices
Evo Medik	13 August 2007 Malaysia	RM100,000	100%	Marketing and distribution of medical devices
U Medihealth	10 May 2011 Malaysia	RM2,500	100%	Marketing and distribution of medical devices
UMediC	08 November 2002 Malaysia	RM2,400,000	100%	Marketing and distribution of medical devices as well as the provision of after-sales services
UWHC	31 July 2018 Malaysia	RM50,000	100%	Holding of intellectual property rights[(i)]
UWHM	28 September 2011 Malaysia	RM4,420,000	100%	Developing, manufacturing and marketing of medical devices

[(i)] The Company was principally involved in manufacture of medical and dental instrument and supplies. Subsequent to the financial year ended 31 July 2021, the Company has changed its principal activities to holding of intellectual property rights.

4. AUDITED HISTORICAL FINANCIAL INFORMATION

This Report deals solely with the audited combined financial information of Actimed, Evo Medik, U Medihealth, UMediC, UWHC and UWHM for the past financial years ended 31 July 2019, 31 July 2020 and 31 July 2021 as well as the audited consolidated financial information of Actimed, Evo Medik, U Medihealth, UMediC, UWHC and UWHM of the financial period ended 31 January 2022.

5. SHARE CAPITAL

The Company was incorporated with issued share capital of RM1 comprising 1 ordinary share. Details of changes in the issued share capital of the Company since the date of incorporation are as follows:

Date	No. of shares	Details	Cumulative no. of shares	Price per share (RM)	Amount (RM)	Cumulative issued share capital (RM)
22 April 2021	1	Allotment to initial subscriber	1	1	1	1
28 September 2021	599	Allotment to initial subscriber	600	0.05	30	31
28 September 2021	276,685,100	Allotment pursuant to the Completed Transactions	276,685,700	0.05	13,834,255	13,834,286

6. RELEVANT FINANCIAL YEARS/PERIODS

The relevant financial years/periods of the audited financial statements presented for the purpose of this Report ("Relevant Financial Years/Periods") and the statutory auditors of the respective companies within the Group were as follows:

Company	Relevant Financial Years/Periods	Auditors
UMC	Financial period from 22 April 2021 (Date of incorporation) to 31 July 2021	BDO PLT
	Financial period from 1 August 2021 to 31 January 2022	BDO PLT
Actimed	Financial year ended ("FYE") 31 December 2018	BDO PLT
	FYE 31 December 2019	BDO PLT
	Financial period from 1 January 2020 to 31 July 2020	BDO PLT
	FYE 31 July 2021	BDO PLT
	Financial period from 1 August 2021 to 31 January 2022	BDO PLT
Evo Medik	FYE 31 July 2019	BDO PLT
	FYE 31 July 2020	BDO PLT
	FYE 31 July 2021	BDO PLT
	Financial period from 1 August 2021 to 31 January 2022	BDO PLT
U Medihealth	FYE 31 May 2019	BDO PLT
	Financial period from 1 June 2019 to 31 July 2020	BDO PLT
	FYE 31 July 2021	BDO PLT
	Financial period from 1 August 2021 to 31 January 2022	BDO PLT

6. RELEVANT FINANCIAL YEARS/PERIODS (continued)

The relevant financial years/periods of the audited financial statements presented for the purpose of this Report ("Relevant Financial Years/Periods") and the statutory auditors of the respective companies within the Group were as follows (continued):

Company	Relevant Financial Years/Periods	Auditors
UMediC	FYE 31 July 2019	BDO PLT
	FYE 31 July 2020	BDO PLT
	FYE 31 July 2021	BDO PLT
	Financial period from 1 August 2021 to 31 January 2022	BDO PLT
UWHC	Financial period from 31 July 2018 (Date of incorporation) to 31 July 2019	Y.H. Chang & Partner
	FYE 31 July 2020	Y.H. Chang & Partner
	FYE 31 July 2021	BDO PLT
	Financial period from 1 August 2021 to 31 January 2022	BDO PLT
UWHM	FYE 31 July 2019	BDO PLT
	FYE 31 July 2020	BDO PLT
	FYE 31 July 2021	BDO PLT
	Financial period from 1 August 2021 to 31 January 2022	BDO PLT

The audited financial information of all the companies within the Group for the Relevant Financial Years/Periods reported above were not subject to any qualification or modification.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

7.1 BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with Malaysian Financial Reporting Standards ("MFRSs"), International Financial Reporting Standards ("IFRS") and the provisions of the Companies Act 2016 in Malaysia.

These are the first financial statements of the Group prepared in accordance with MFRSs, and MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards* has been applied. In the previous financial years, the financial statements of the Group were prepared in accordance with Malaysian Private Entities Reporting Standard ("MPERS").

The Group has consistently applied the same accounting policies in its opening MFRS combined statements of financial position as at 1 August 2018 and throughout all financial years presented, as if these policies had always been in effect. Comparative figures in these financial statements have been restated to give effect to these changes and Section 7.3 and Section 9.31 of this Report disclose the impact of the transition to MFRSs on the reported financial position, financial performance and cash flows of the Group for the financial years then ended. No comparative figures are presented for the interim consolidated financial statements of the Group for the financial period from 1 August 2021 to 31 January 2022.

The financial information have been prepared under the historical cost convention except as otherwise stated in the financial information.

The preparation of these financial statements in conformity with MFRSs requires the Directors to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and contingent liabilities. The Directors are also required to exercise their judgement in the process of applying the accounting policies. Although these estimates and assumptions are based on the Directors' best knowledge of events and actions, actual results could differ from those estimates.

7.1.1 Combined financial statements for the financial years ended 31 July 2019, 31 July 2020 and 31 July 2021

The combined financial statements of UMC for the FYE 31 July 2019, 31 July 2020 and 31 July 2021 have been prepared in relation to the Listing and in accordance with MFRSs and IFRSs, and based on the Guidance Note on 'Financial information' issued by the Malaysian Institute of Accountants.

The combined financial statements consist of the financial statements of combining entities as disclosed in Section 9.7 to this Report, which were under common control throughout the reporting periods. The common control of the combining entities has been established by virtue of Dato' Ng Chai Eng, Mr. Lim Taw Seong and Mr. Lau Chee Kheong, being the major shareholders and promoters of the Company.

The combined financial statements have been prepared using financial information obtained from the records of the combining entities during the reporting periods.

The financial information as presented in the combined financial statements may not correspond to the consolidated financial statements of the Company had the Completed Transactions to legally constitute the Group been incorporated in the consolidated financial statements for the respective financial years. Consequently, the financial information from the combined financial statements do not purport to predict the financial positions, results of operations and cash flows of the combining entities during the reporting periods.

The combining entities previously applied MPERSs during the financial years ended 31 July 2019 and 31 July 2020.

The combining entities adopted MFRSs and IFRSs for the first time during the financial year ended 31 July 2021. The management has assessed the impact arising from the transition from MPERSs to MFRSs on the combining entities' financial position, financial performance and cash flows as set out in Section 9.31 to this Report.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.1 BASIS OF PREPARATION (continued)

7.1.2 Consolidated financial statements for the financial period ended 31 January 2022

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

During the financial period ended 31 January 2022, the Group applied merger method of accounting on a retrospective basis arising from the acquisition of the entire equity interests of Actimed, Evo Medik, U Medihealth, UMediC, UWHC and UWHM by the Company in business combinations under common control.

Consequently, the following accounting treatment has been applied in the consolidated financial statements arising from the business combinations under common control:

(a) Assets and liabilities of Actimed, Evo Medik, U Medihealth, UMediC, UWHC and UWHM are recognised and measured at their pre-business combination carrying amount without restatement at fair value;

(b) Retained earnings and other equity reserves of the Group as at 1 August 2021 are those of Actimed, Evo Medik, U Medihealth, UMediC, UWHC and UWHM;

(c) Share capital as at 1 August 2021 reflects the share capital of Actimed, Evo Medik, U Medihealth, UMediC, UWHC and UWHM; and

(d) The statements of financial position as at 31 January 2022 represent the financial position of the Group after reflecting the effect of acquisitions during the financial period.

7.2 SIGNIFICANT ACCOUNTING POLICIES

7.2.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

(a) Power over the investee;
(b) Exposure, or rights, to variable returns from its involvement with the investee; and
(c) The ability to use its power over the investee to affect its returns.

If the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) The contractual arrangement with the other vote holders of the investee;
(b) Rights arising from other contractual agreements; and
(c) The voting rights of the Group and potential voting rights.

Intragroup balances, transactions, income and expenses are eliminated on consolidation. Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the interest of the Group in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no impairment.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.1 Basis of consolidation (continued)

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent equity in subsidiaries that are not attributable, directly or indirectly, to owners of the parent, and is presented separately in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the financial period are included in the statement of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in equity and attributed to owners of the parent.

If the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

(i) The aggregate of the fair value of the consideration received and the fair value of any retained interest; and

(ii) The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the subsidiaries are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investments retained in the former subsidiaries at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 9 *Financial Instruments* or, where applicable, the cost on initial recognition of an investment in associate or joint venture.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.2 Business combinations under common control

Business combination involving entities under common control are accounted for by applying the merger method of accounting. The assets and liabilities of the merger entities are reflected at their carrying amounts reported in the individual financial information.

In a business combination under common control, any differences between the cost of the merger and the share capital of the 'acquired' entity are reflected within equity as reorganisation debit reserve.

The combined statements of profit or loss and other comprehensive income reflect the results of the combining entities for the full financial years and the comparatives are presented as if the entities had always been combined since the date for which the entities had come under common control.

7.2.3 Business combinations not under common control

Business combinations not under common control are accounted for by applying the acquisition method of accounting.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date, except that:

(a) Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with MFRS 112 *Income Taxes* and MFRS 119 *Employee Benefits* respectively;

(b) Liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement by the Group of an acquiree's share-based payment transactions are measured in accordance with MFRS 2 *Share-based Payment* at the acquisition date; and

(c) Assets (or disposal groups) that are classified as held for sale in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration payable is recognised at fair value at the acquisition date. Measurement period adjustments to contingent consideration are dealt with as follows:

(a) If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity; and

(b) Subsequent changes to contingent consideration classified as an asset or liability that is a financial instrument within the scope of MFRS 9 *Financial Instruments* are recognised either in profit or loss or in other comprehensive income in accordance with MFRS 9 *Financial Instruments*. All other subsequent changes are recognised in profit or loss.

In a business combination achieved in stages, previously held equity interests in the acquiree are re-measured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.3 Business combinations not under common control (continued)

Components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by MFRSs. The choice of measurement basis is made on a combination-by-combination basis. Subsequent to initial recognition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the previously held equity interest of the Group in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill in the statement of financial position. In instances where the latter amount exceeds the former, the excess is recognised as a gain on bargain purchase in profit or loss on the acquisition date.

7.2.4 Property, plant and equipment and depreciation

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset would flow to the Group and the cost of the asset could be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Group is obligated to incur when the asset is acquired, if applicable.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the asset and which has different useful life, is depreciated separately.

After initial recognition, property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated to write down the cost of the assets to their residual values on a straight line basis over their estimated useful lives. The principal annual depreciation period and rates are as follows:

Leasehold land	60 years
Leasehold building	2%
Plant and machinery	10%
Production equipment	10%
Furniture, fitting, office equipment and computer system	10% to 20%
Moulds and simulator	10% to 20%
Tools and equipment	10%
Quality assessment equipment	10%
Motor vehicles	20%
Renovation	10% to 20%

Capital work-in-progress represents machinery under installation and factory building under construction. Capital work-in-progress is not depreciated until such time when the asset is available for use.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.4 Property, plant and equipment and depreciation (continued)

At the end of each reporting period, the carrying amount of an item of property, plant and equipment is assessed for impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable. A write down is made if the carrying amount exceeds the recoverable amount (see section 7.2.7 of this Report on impairment of non-financial assets).

The residual value, useful life and depreciation method are reviewed at the end of each reporting period to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the carrying amount is included in profit or loss.

7.2.5 Leases

The Group as a lessee

The Group recognises right-of-use assets and lease liabilities at the commencement date of the contract for all leases excluding short-term leases or leases for which the underlying asset is of low value, conveying the right to control the use of an identified asset for a period of time.

The Group determines the lease term as the non-cancellable period of a lease, together with both:

(a) Period covered by an option to the extend the lease if the lease is reasonably certain to exercise that options; and

(b) Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the Group considers all relevant facts and circumstances that create economic incentive for the lessee to exercise the option to extend the lease, not to exercise the option to terminate the lease. The Group revises the lease term if there is a change in the non-cancellable period of a lease.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.5 Leases (continued)

Right-of-use assets

The right-of-use assets are initially recorded at cost, which comprises:

(a) The amount of the initial measurement of the lease liability;

(b) Any lease payments made at or before the commencement date of the lease, less any lease incentives received;

(c) Any initial direct costs incurred by the Group; and

(d) An estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the lessor.

Subsequent to the initial recognition, the right-of-use assets are measured at cost less any accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of the lease liability.

The right-of-use assets are depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The lease terms of right-of-use assets are as follows:

Leasehold land	60 years
Factory	24 months
Offices	24 to 30 months
Plant and machinery	10 years
Production equipment	10 years
Computer software and hardware	5 years
Motor vehicles	5 years

Capital work-in-progress represents machinery under installation. Capital work-in-progress is not depreciated until such time when the asset is available for use.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the incremental borrowing rate of the Group. Subsequent to the initial recognition, the Group measures the lease liability by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.6 Investments

(a) Subsidiary

A subsidiary is an entity in which the Group and the Company are exposed, or have rights, to variable returns from its involvement with the subsidiary and have the ability to affect those returns through its power over the subsidiary.

An investment in subsidiary, which is eliminated on consolidation, is stated in the separate financial statements of the Company at cost less impairment loss, if any. Put options written over non-controlling interests on the acquisition of subsidiary shall be included as part of the cost of investment in the separate financial statements of the Company. Subsequent changes in the fair value of the written put options over non-controlling interests shall be recognised in profit or loss. Investments accounted for at cost shall be accounted for in accordance with MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* when they are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with MFRS 5.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the Group would derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost. The resulting difference is recognised as a gain or loss in profit or loss.

(b) Associate

An associate is an entity over which the Group and the Company have significant influence and that is neither a subsidiary nor an interest in a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is neither control nor joint control over those policies.

In the separate financial statements of the Company, an investment in an associate is stated at cost less impairment losses.

An investment in an associate is accounted for in the financial statements using the equity method of accounting. The investment in an associate is initially recognised at cost and adjusted thereafter for the post acquisition change in the share of net assets of the investment of the Group.

The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long term interest that, in substance, form part of the net investments in the associate of the Group.

The share of the profit or loss of the associate by the Group during the financial year is included in the financial statements after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount could also be necessary for changes in the proportionate interest of the Group in the associate arising from changes in the associate's equity that have not been recognised in the associate's profit or loss. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The share of those changes by the Group is recognised directly in equity of the Group.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.6 Investments (continued)

(b) Associate (continued)

Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the interest of the Group in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no impairment.

7.2.7 Impairment of non-financial assets

The carrying amount of assets, except for financial assets (excluding investments in subsidiaries and investment in an associate) and inventories, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is estimated for an individual asset. Where it is not possible to estimate the recoverable amount of the individual asset, the impairment test is carried out on the cash generating unit ("CGU") to which the asset belongs.

The recoverable amount of an asset or CGU is the higher of its fair value less cost to sell and its value in use.

In estimating the value in use, the estimated future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. An impairment loss is recognised in profit or loss when the carrying amount of the asset or the CGU, exceeds the recoverable amount of the asset or the CGU. The total impairment loss is allocated to the assets of the CGU on a pro-rata basis of the carrying amount of each asset in the CGU.

The impairment loss is recognised in profit or loss immediately.

An impairment loss for assets is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Such reversals are recognised as income immediately in profit or loss.

7.2.8 Inventories

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

Cost is determined using the first-in, first-out formula. Cost of raw materials comprises all costs of purchase, cost of conversion plus other costs incurred in bringing the inventories to their present location and condition. The cost of work-in-progress and finished goods includes the cost of raw materials, direct labour, other direct cost and a proportion of production overheads based on normal operating capacity of the production facilities.

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

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, an equity instrument of another enterprise, a contractual right to receive cash or another financial asset from another enterprise, or a contractual right to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially favourable to the Group.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or a contractual obligation to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the Group.

Financial instruments are recognised on the statements of financial position when the Group has become a party to the contractual provisions of the instrument. At initial recognition, a financial instrument is recognised at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial instrument.

(a) Financial assets

A financial asset is classified into the following three (3) categories after initial recognition for the purpose of subsequent measurement:

(i) Financial assets measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI") are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statements of comprehensive income.

(ii) Financial assets at fair value through other comprehensive income ("FVOCI")

Financial assets that are debt instruments are measured at FVOCI if they are held within a business model whose objectives are to collect contractual cash flows and selling the financial assets, and have contractual terms of financial assets which give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.9 Financial instruments (continued)

(a) Financial assets (continued)

A financial asset is classified into the following three (3) categories after initial recognition for the purpose of subsequent measurement (continued):

(ii) Financial assets at FVOCI (continued)

Subsequent to initial recognition, financial assets that are debt instruments are measured at fair value. Any gains or losses arising from changes in the fair value of financial assets measured at FVOCI are recognised directly in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss whilst dividends on equity instruments are recognised in profit or loss when the right of the Group to receive payment is established.

(iii) Financial assets at fair value through profit or loss ("FVTPL")

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. The Group may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes are recognised in profit or loss in the period which it arises.

A financial asset or part of it is derecognised when, and only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in equity, is recognised in profit or loss.

(b) Financial liabilities

A financial liability is any liability with contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. The Group's significant financial liabilities include trade and other payables and borrowings which are initially measured at fair value and subsequently measured at amortised cost.

(i) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when financial liabilities are either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.9 Financial instruments (continued)

(b) Financial liabilities (continued)

(ii) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

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

(c) Equity investments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Equity investments which are not held for trading for which the Group has irrevocably elected at initial recognition to recognise at fair value through other comprehensive income. These are strategic investments for which the Group considers this classification to be appropriate and relevant.

Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVOCI are recognised in the statements of comprehensive income as applicable.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.10 Impairment of financial assets

The Group recognises an impairment loss allowance for expected credit losses ("ECL") on a financial asset that is measured at amortised cost.

The Group recognises allowance for impairment loss for trade receivables based on a simplified approach in accordance with MFRS 9 *Financial Instruments* and measures the allowance for impairment loss based on a lifetime ECL from initial recognition.

At the end of each reporting period, the Group assesses whether there has been a significant increase in credit risk for financial assets other than trade receivables by comparing the risk of default occurring over the expected life with the risk of default since initial recognition. For those in which credit risk has not increased significantly since initial recognition of the financial asset, twelve-month ECL along with gross interest income are recognised. For those in which credit risk has increased significantly, lifetime ECL along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime ECL along with interest income on a net basis are recognised.

The Group considers historical credit loss experience and observable data such as current changes and future forecasts in economic conditions to estimate the amount of expected impairment loss. The methodology and assumptions including any forecasts of future economic conditions are reviewed regularly.

The carrying amount of the financial asset is reduced through the use of an allowance for impairment loss account and the amount of impairment loss is recognised in profit or loss. When a financial asset becomes uncollectible, it is written off against the allowance for impairment loss account.

7.2.11 Borrowing costs

Borrowing costs that are directly attributable to the acquisition or production of a qualifying asset is capitalised as part of the cost of the asset until when substantially all the activities necessary to prepare the asset for its intended use or sale are complete, after which such expense is charged to profit or loss. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing cost is suspended during extended periods in which active development is interrupted.

The amount of borrowing costs eligible for capitalisation is the actual borrowing costs incurred on the borrowing during the period less any investment income on the temporary investment of the borrowing.

All other borrowing costs are recognised in profit or loss in the financial period/year in which they are incurred.

7.2.12 Income taxes

Income taxes include all taxes on taxable profit. Income taxes also include other taxes, such as real property gains taxes payable on the disposal of properties, if any.

Taxes in the statements of profit or loss and other comprehensive income comprise current tax and deferred tax.

(a) Current tax

Current tax expenses are determined according to the tax laws of the jurisdiction in which the Group operates and include all taxes based upon the taxable profits.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.12 Income taxes (continued)

(b) Deferred tax

Deferred tax is recognised in full using the liability method on temporary differences arising between the carrying amount of an asset or liability in the statements of financial position and its tax base.

Deferred tax is recognised for all temporary differences, unless the deferred tax arises from goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit would be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amount of a deferred tax asset is reviewed at the end of each reporting period. If it is no longer probable that sufficient taxable profit would be available to allow the benefit of part or all of that deferred tax asset to be utilised, the carrying amount of the deferred tax asset would be reduced accordingly. When it becomes probable that sufficient taxable profit would be available, such reductions would be reversed to the extent of the taxable profit.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority on either:

(i) The same taxable entity; or

(ii) Different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax would be recognised as income or expense and included in profit or loss for the period unless the tax related to items that are credited or charged, in the same or a different period, directly to equity, in which case the deferred tax would be charged or credited directly to equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the announcement of tax rates and tax laws by the Government which have the substantive effect of actual enactment by the end of each reporting period.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.13 Employee benefits

(a) Short term employee benefits

Wages, salaries, social security contributions, paid annual leave, paid sick leave, bonuses and non-monetary benefits are measured on an undiscounted basis and are expensed when employees rendered their services to the Group.

Short term accumulating compensated absences such as paid annual leave are recognised as an expense when employees render services that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur and they lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the Group.

Bonuses are recognised as an expense when there is a present, legal or constructive obligation to make such payments, as a result of past events and when a reliable estimate can be made of the amount of the obligation.

(b) Defined contribution plans

The Group makes contributions to a statutory provident fund. The contributions are recognised as a liability after deducting any contribution already paid and as an expense in the period in which the employees render their services.

7.2.14 Foreign currencies

(a) Functional and presentation currency

Items included in the financial information of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Ringgit Malaysia, which is the functional and presentation currency of the Group.

(b) Foreign currency translations and balances

Transactions in foreign currencies are converted into Ringgit Malaysia at rates of exchange ruling at the transaction dates. Monetary assets and liabilities in foreign currencies at the end of the reporting period are translated into Ringgit Malaysia at rates of exchange ruling at that date. All exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in profit or loss in the period in which they arise. Non-monetary items initially denominated in foreign currencies, which are carried at historical cost are translated using the historical rate as of the date of acquisition, and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined for presentation currency purposes.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.15 Revenue recognition

(a) Sale of goods and services

The Group recognises revenue from contracts with customers for the sale of goods and services based on the five-step model as set out below:

(i) Identify contract(s) with a customer. A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria that must be met.

(ii) Identify performance obligations in the contract. A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

(iii) Determine the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

(iv) Allocate the transaction price to the performance obligations in the contract. For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

(v) Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group satisfies a performance obligation and recognise revenue at the point in time.

When the Group satisfies a performance obligation by delivering the promised goods or services, it creates a contract asset based on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised, this gives rise to a contract liability.

Revenue is measured at the fair value of consideration received or receivable.

Revenue from sale of goods and services is recognised when the Group satisfies a performance obligation by transferring a promised good or service to a customer. An asset is transferred as and when the customer obtains control of that asset, which coincides with the delivery of goods and services and acceptance by customers.

(b) Other income

Interest income

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

Dividend income

Dividend income is recognised when the right to receive payment is established.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.16 Fair value measurement

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

The Group measures the fair value of an asset or a liability by taking into account the characteristics of the asset or liability if market participants would take these characteristics into account when pricing the asset or liability. The Group has considered the following characteristics when determining fair value:

(a) The condition and location of the asset; and

(b) Restrictions, if any, on the sale or use of the asset.

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

The fair value of a financial or non-financial liability or an entity's own equity instrument assumes that:

(a) A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date; and

(b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.17 Government grants

Government grants are recognised in the financial statements as deferred income when there is reasonable assurance that:

(a) The Group would comply with the conditions attached to the grant; and

(b) The grants would be received.

Government grants related to costs are recognised as income in profit or loss in the period in which the grants had been received to match them with the costs which they are intended to compensate.

Where the grants related to an asset, they are recognised as deferred income and transferred to profit or loss on a systematic basis over the useful lives of the related asset.

7.2.18 Operating segments

Operating segments are defined as components of the Group that:

(a) Engage in business activities from which it could earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Group);

(b) Whose operating results are regularly reviewed by the chief operating decision maker of the Group in making decisions about resources to be allocated to the segment and assessing its performance; and

(c) For which discrete financial information is available.

An operating segment may engage in business activities for which it has yet to earn revenue.

The Group reports separately information about each operating segment that meets any of the following quantitative thresholds:

(a) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is ten percent (10%) or more of the combined revenue, internal and external, of all operating segments.

(b) The absolute amount of its reported profit or loss is ten percent (10%) or more of the greater, in absolute amount of:

    (i) the combined reported profit of all operating segments that did not report a loss; and

    (ii) the combined reported loss of all operating segments that reported a loss.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2 SIGNIFICANT ACCOUNTING POLICIES (continued)

7.2.18 Operating segments (continued)

The Group reports separately information about each operating segment that meets any of the following quantitative thresholds (continued):

(c) Its assets are ten percent (10%) or more of the combined assets of all operating segments.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if the management believes that information about the segment would be useful to users of the financial statements.

Total external revenue reported by operating segments shall constitute at least seventy-five percent (75%) of the revenue of the Group. Operating segments identified as reportable segments in the current financial period/year in accordance with the quantitative thresholds would result in a restatement of prior period segment data for comparative purposes.

7.2.19 Earnings per share

(a) Basic

Basic earnings per ordinary share for the financial period/years are calculated by dividing the profit for the financial period/years attributable to owners of parent/common controlling shareholders of the combining entities by the expected number of ordinary shares of the Company upon the completion of the Listing.

(b) Diluted

Diluted earnings per ordinary share for the financial period/years are calculated by dividing the profit for the financial period/years attributable to owners of parent/common controlling shareholders by the expected number of ordinary shares of the Company upon the completion of the Listing adjusted for the effects of dilutive potential ordinary shares.

7.3 ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs

7.3.1 New MFRSs adopted during the financial period/years

The Group adopted the following Standards, Amendments and Interpretations of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") during the reporting periods:

Title

MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards*
MFRS 2 *Share-based Payments*
MFRS 3 *Business Combinations*
MFRS 4 *Insurance Contracts*
MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
MFRS 6 *Exploration for and Evaluation of Mineral Resources*
MFRS 7 *Financial Instruments: Disclosures*
MFRS 8 *Operating Segments*
MFRS 9 *Financial Instruments*
MFRS 10 *Consolidated Financial Statements*

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3 ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (continued)

7.3.1 New MFRSs adopted during the financial period/years (continued)

The Group adopted the following Standards, Amendments and Interpretations of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") during the reporting periods (continued):

Title

MFRS 11 *Joint Arrangements*
MFRS 12 *Disclosure of Interests in Other Entities*
MFRS 13 *Fair Value Measurement*
MFRS 14 *Regulatory Deferral Accounts*
MFRS 15 *Revenue from Contracts with Customers*
MFRS 16 *Leases*
MFRS 101 *Presentation of Financial Statements*
MFRS 102 *Inventories*
MFRS 107 *Statement of Cash Flows*
MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
MFRS 110 *Events after the Reporting Period*
MFRS 112 *Income Taxes*
MFRS 116 *Property, Plant and Equipment*
MFRS 119 *Employee Benefits*
MFRS 120 *Accounting for Government Grants and Disclosure of Government Assistance*
MFRS 121 *The Effects of Changes in Foreign Exchange Rates*
MFRS 123 *Borrowing Costs*
MFRS 124 *Related Party Disclosures*
MFRS 126 *Accounting and Reporting by Retirement Benefit Plans*
MFRS 127 *Separate Financial Statements*
MFRS 128 *Investments in Associates and Joint Ventures*
MFRS 129 *Financial Reporting in Hyperinflationary Economies*
MFRS 132 *Financial Instruments: Presentation*
MFRS 133 *Earnings per Share*
MFRS 134 *Interim Financial Reporting*
MFRS 136 *Impairment of Assets*
MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*
MFRS 138 *Intangible Assets*
MFRS 139 *Financial Instruments: Recognition and Measurement*
MFRS 140 *Investment Property*
MFRS 141 *Agriculture*
IC Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
IC Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments*
IC Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
IC Interpretation 6 *Liabilities arising from Participating in a Specific Market- Waste Electrical and Electrical Equipment*
IC Interpretation 7 *Applying the Restatement Approach under MFRS 129 Financial Reporting in Hyperinflationary Economies*
IC Interpretation 10 *Interim Financial Reporting and Impairment*
IC Interpretation 12 *Service Concession Arrangements*
IC Interpretation 14 *MFRS 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
IC Interpretation 16 *Hedges of a Net Investment in a Foreign Operation*
IC Interpretation 17 *Distributions of Non-cash Assets to Owners*
IC Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments*
IC Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine*
IC Interpretation 21 *Levies*
IC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*
IC Interpretation 23 *Uncertainty over Income Tax Treatments*

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3 ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (continued)

7.3.1 New MFRSs adopted during the financial period/years (continued)

The Group adopted the following Standards, Amendments and Interpretations of the MFRS Framework that were issued by the Malaysian Accounting Standards Board ("MASB") during the reporting periods (continued):

Title
IC Interpretation 107 *Introduction of the Euro*
IC Interpretation 110 *Government Assistance - No Specific Relation to Operating Activities*
IC Interpretation 125 *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*
IC Interpretation 129 *Service Concession Arrangements: Disclosures*
IC Interpretation 132 *Intangible Assets - Web Site Costs*
Amendments to References to the Conceptual Framework in MFRS Standards
Amendments to MFRS 3 *Definition of a Business*
Amendments to MFRS 101 and MFRS 108 *Definition of Material*
Amendments to MFRS 9, MFRS 139 and MFRS 7 *Interest Rate Benchmark Reform*
Amendments to MFRS 16 *Covid-19 Related Rent Concessions*
Amendments to MFRS 16 *Covid-19 Related Rent Concessions beyond 30 June 2021*
Amendments to MFRS 4 *Insurance Contract - Extension of the Temporary Exemption from Applying MFRS 9*
Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 *Interest Rate Benchmark Reform - Phase 2*

There is no material impact upon the adoption of these Standards and Amendments during the financial period/years, other than the adoption of the following Standards:

MFRS 101 *Presentation of Financial Statements*

The Standard clarifies that the third statement of financial position is required only if a retrospective application, retrospective restatement or reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period. If the third statement of financial position is presented, the Standard clarifies that the related notes to the opening statement of financial position need not to be disclosed. Accordingly, there are no related notes disclosed in relation to the opening statement of financial position as at 1 August 2018.

MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards*

The Standard clarifies that the first MFRS financial statements shall include at least three statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity and related notes, including comparative information for all statements presented.

MFRS 9 *Financial Instruments*

The adoption of MFRS 9 has fundamentally changed the accounting of impairment losses for financial assets of the Group by replacing the incurred loss approach of MPERS with a forward-looking ECL approach. MFRS 9 requires the Group to record an allowance for ECL for all debt financial assets not held at fair value through profit or loss.

ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The estimate of expected cash shortfall shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms. The shortfall is then discounted at an approximation to the original effective interest rate of the asset.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3 ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (continued)

7.3.1 New MFRSs adopted during the financial period/years (continued)

MFRS 9 *Financial Instruments* (continued)

Impairment for trade receivables and contract assets that do not contain a significant financing component are recognised based on the simplified approach within MFRS 9 using the lifetime ECL.

During this process, the probability of non-payment by the trade receivables is adjusted by forward-looking information and multiplied by the amount of the expected loss arising from default to determine the lifetime ECL for the trade receivables. For trade receivables, which are reported net, such impairments are recorded in a separate impairment account with the loss being recognised within administrative expenses in the statement of profit or loss and other comprehensive income. On confirmation that the trade receivable would not be collectable, the gross carrying value of the asset would be written off against the associated impairment.

Impairment for other receivables and amounts owing by Directors and related parties are recognised based on the general approach with MFRS 9 using the forward-looking ECL model. The methodology used to determine the amount of the impairment is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those in which the credit risk has not increased significantly since initial recognition of the financial asset, twelve month ECL along with gross interest income are recognised. For those in which credit risk has increased significantly, lifetime ECL along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime ECL along with interest income on a net basis are recognised.

MFRS 15 *Revenue from Contracts with Customers*

The Group adopted MFRS 15 using the full retrospective approach, for which the cumulative effect of initial application is recognised in retained earnings as at 1 August 2018. Accordingly, the comparative information presented is restated.

MFRS 15 establishes a comprehensive framework for revenue recognition and measurement. Under MFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control, at a point in time or over time, requires significant judgement.

MFRS 16 *Leases*

The Group adopted MFRS 16 using the full retrospective approach, for which the cumulative effect of initial application is recognised in retained earnings as at 1 August 2018. Accordingly, the comparative information presented is restated.

On adoption of MFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of MPERS. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the Group.

In order to compute the transition impact of MFRS 16, a significant data extraction exercise was undertaken by management to summarise all property and equipment lease data such that the respective inputs could be uploaded into management's model. The incremental borrowing rate method has been adopted where the implicit rate of interest in a lease is not readily determinable.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability respectively at the date of initial application. The measurement principles of MFRS 16 are only applied after that date.

7. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

7.3 ADOPTION OF NEW MFRSs AND AMENDMENTS TO MFRSs (continued)

7.3.2 New MFRSs that have been issued, but only effective for annual periods beginning on or after 1 January 2022

The Standards that are issued but not yet effective up to the date of issuance of financial information of the Group are disclosed below. The Group intends to adopt these Standards, if applicable, when they become effective.

Title	Effective Date
Annual Improvements to MFRS Standards 2018 - 2020	1 January 2022
Amendments to MFRS 3 *Reference to the Conceptual Framework*	1 January 2022
Amendments to MFRS 116 *Property, Plant and Equipment - Proceeds before Intended Use*	1 January 2022
Amendments to MFRS 137 *Onerous Contract - Cost of Fulfilling a Contract*	1 January 2022
Amendments to MFRS 101 *Classification of Liabilities as Current or Non-current*	1 January 2023
MFRS 17 *Insurance Contracts*	1 January 2023
Amendments to MFRS 17 *Insurance Contracts*	1 January 2023
Disclosure of Accounting Policies (Amendments to MFRS 101 *Presentation of Financial Statements*)	1 January 2023
Definition of Accounting Estimates (Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*)	1 January 2023
Deferred tax related to Assets and Liabilities arising from a Single Transaction (Amendments to MFRS 112)	1 January 2023
Amendments to MFRS 10 and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Deferred

The Group is in the process of assessing the impact of implementing these Standards and Amendments to the Standards, since the effects would only be observable for the future financial years.

8. FINANCIAL INFORMATION AND LIMITATIONS

The financial information in Section 9 of this Report is based on the respective audited financial statements of the Group with applicable appropriate adjustments and reclassifications made for the purpose of this Report.

All information, including the combined/consolidated financial statements, have been extracted from the audited financial statements and records of the Group during the relevant reporting periods.