# 6. INFORMATION ON OUR GROUP

## 6.1 INFORMATION ON OUR COMPANY

Our Company was incorporated in Malaysia under the Act on 7 December 2021 as a private limited company under the name of Betamek Sdn Bhd. On 18 March 2022, we converted into a public limited company and adopted our present name.

Our Company is principally an investment holding company and provides management services to our subsidiary. There has been no material change in the manner in which we conduct our business or activities since our incorporation and up to LPD. Through our subsidiary, we are principally engaged in the provision of EMS for the automotive markets predominantly in Malaysia, where we undertake D&D, procurement and manufacturing as well as after-sales services in respect of the assembly and production of fully-assembled automotive electronic products. Please refer to Section 7.1 for detailed information of our Group's history.

As at LPD, our share capital is RM93,789,001 comprising 382,500,000 Shares, which have been issued and fully paid-up. The movements in our share capital since the date of our incorporation are set out below:

| Date of allotment | No. of Shares allotted | Consideration/ Types of issue | Cumulative share capital |
|---|---|---|---|
| | | | RM |
| 7 December 2021 | 1 | RM1/ Subscriber's share | 1 |
| 6 September 2022 | 382,499,999 | RM93,789,000/ Consideration for the Acquisition | 93,789,001 |

As at LPD, we do not have any outstanding warrants, options, convertible securities and uncalled capital. In addition, there were no discounts, special terms or instalment payment terms applicable to the payment of the consideration for the allotment.

Upon completion of our IPO, our enlarged share capital will increase to RM127.5 million comprising 450,000,000 Shares.

## 6.2 DETAILS OF THE ACQUISITION

In preparation for our Listing, we have undertaken the Acquisition. On 21 March 2022, we entered into the following agreements with Iskandar Holdings:

(a) a conditional share purchase agreement to acquire 5,790,000 ordinary shares representing 96.5% of the entire equity interest in BESB, being all the shares legally and beneficially owned by Iskandar Holdings, for a purchase consideration of RM90.5 million which was satisfied by the issuance and allotment of 369,112,499 new Shares to Iskandar Holdings at an issue price of RM0.2452 each, credited as fully paid up; and

(b) a conditional share purchase agreement to acquire 210,000 ordinary shares representing 3.5% of the entire equity interest in BESB, being all the shares held by Iskandar Holdings in trust for the benefit of the Senior Management Shareholders, for a purchase consideration of RM3.3 million which was satisfied by the issuance and allotment of 13,387,500 new Shares to the Senior Management Shareholders at an issue price of RM0.2452 each, credited as fully paid up.

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

Details of the Acquisition are as follows:

| Vendor of BESB / Allotees for the consideration shares | Shareholdings in BESB | | Purchase consideration | No. of Shares issued |
|---|---|---|---|---|
| | No. of shares acquired | % of share capital | | |
| | | | RM | |
| Iskandar Holdings | 5,790,000 | 96.5 | 90,506,385 | 369,112,499 |
| Senior Management Shareholders[1] | 210,000 | 3.5 | 3,282,615 | 13,387,500 |
| | **6,000,000** | **100.0** | **93,789,000** | **382,499,999** |

**Note:**

(1) The Senior Management Shareholders have been allotted the Shares pursuant to Iskandar Holdings' renunciation in their favour.

The Senior Management Shareholders and the number of Shares that they received from the renunciation by Iskandar Holdings (in relation to their shareholdings in BESB which were held in trust by Iskandar Holdings) pursuant to the Acquisition are as follows:

| Senior Management Shareholders | Direct | | Indirect | |
|---|---|---|---|---|
| | No. of Shares | (1)% | No. of Shares | % |
| Muhammad Fauzi Bin Abd Ghani | 4,833,300 | 1.3 | - | - |
| Megat Iskandar Hashim Bin Ismail | 1,738,700 | 0.4 | - | - |
| Nor' Azrin Bin Nusi | 2,086,400 | 0.6 | - | - |
| Tay Yoke Theng | 2,086,400 | 0.6 | - | - |
| Soon Kian Yoon | 521,600 | 0.1 | - | - |
| Goh Chew Hoon | 695,400 | 0.2 | - | - |
| Tan Meng Han | 695,400 | 0.2 | - | - |
| Foong Pau Choo | 347,800 | 0.1 | - | - |
| Goh Tian Kuan | 208,700 | <0.1 | - | - |
| Yap Suh Choong | 173,800 | <0.1 | - | - |
| | **13,387,500** | **3.5** | **-** | **-** |

**Note:**

(1) Based on the enlarged share capital of 382,500,000 Shares before our IPO.

Our Senior Management Shareholders' had acquired their respective shareholdings in BESB on 8 March 2022 for RM3.9 million, and had their shares held in trust by Iskandar Holdings in view of our Listing, so as to have the Shares allotted directly to them upon completion of the Acquisition.

The purchase consideration for the Acquisition of RM93.8 million was arrived at on a "willing-buyer willing-seller" basis after taking into consideration the audited NA of BESB as at 31 October 2021 of RM93.8 million.

The Acquisition is subject to the following conditions precedent:

(a) Bursa Securities' approval for the Listing being obtained;

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

(b) The approval-in-principle by Bursa Securities for the registration of the Prospectus being obtained;

(c) Iskandar Holdings obtaining its shareholders' and directors' approval for the disposal of the entire issued share capital of BESB to Betamek;

(d) MITI's approval for the disposal of shares of BESB, which was obtained on 20 June 2022;

(e) Our Company obtaining our shareholders' and directors' approval for the Acquisition and the issuance and allotment of our Shares to Iskandar Holdings and our Senior Management Shareholders as consideration for the Acquisition;

(f) Such other approvals of the financial institutions and counterparties to and under any financing and other agreements of BESB and Iskandar Holdings; and

(g) Any other approvals by any relevant authorities, if required.

The Acquisition was completed on 6 September 2022. Thereafter, BESB became our wholly-owned subsidiary.

The new Shares issued under the Acquisition rank equally in all respects with our existing Shares including voting rights and will be entitled to all rights and dividends and/or other distributions, the entitlement date of which is subsequent to the date of issuance of the new Shares.

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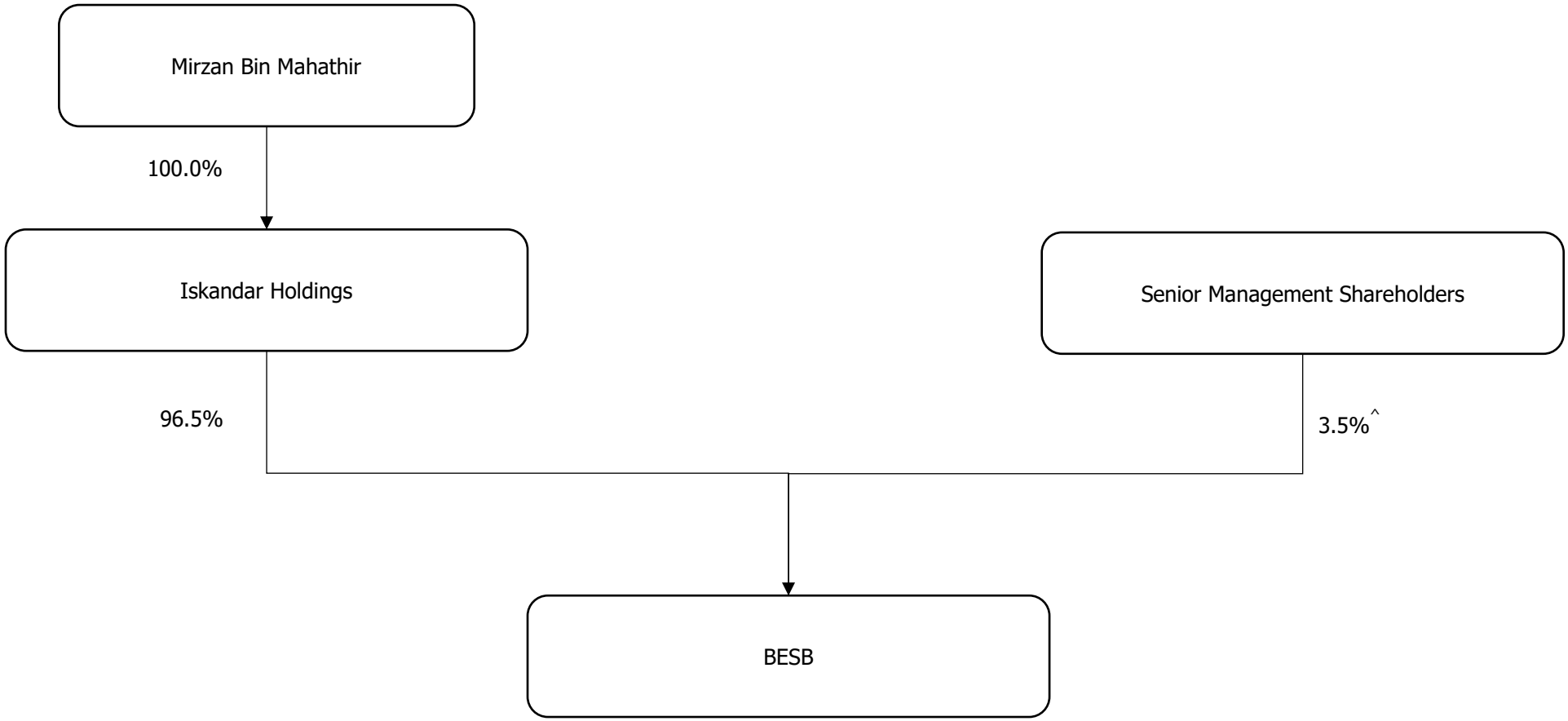
## 6. INFORMATION ON OUR GROUP *(Cont'd)*

### 6.3 GROUP STRUCTURE

**Before the Acquisition**

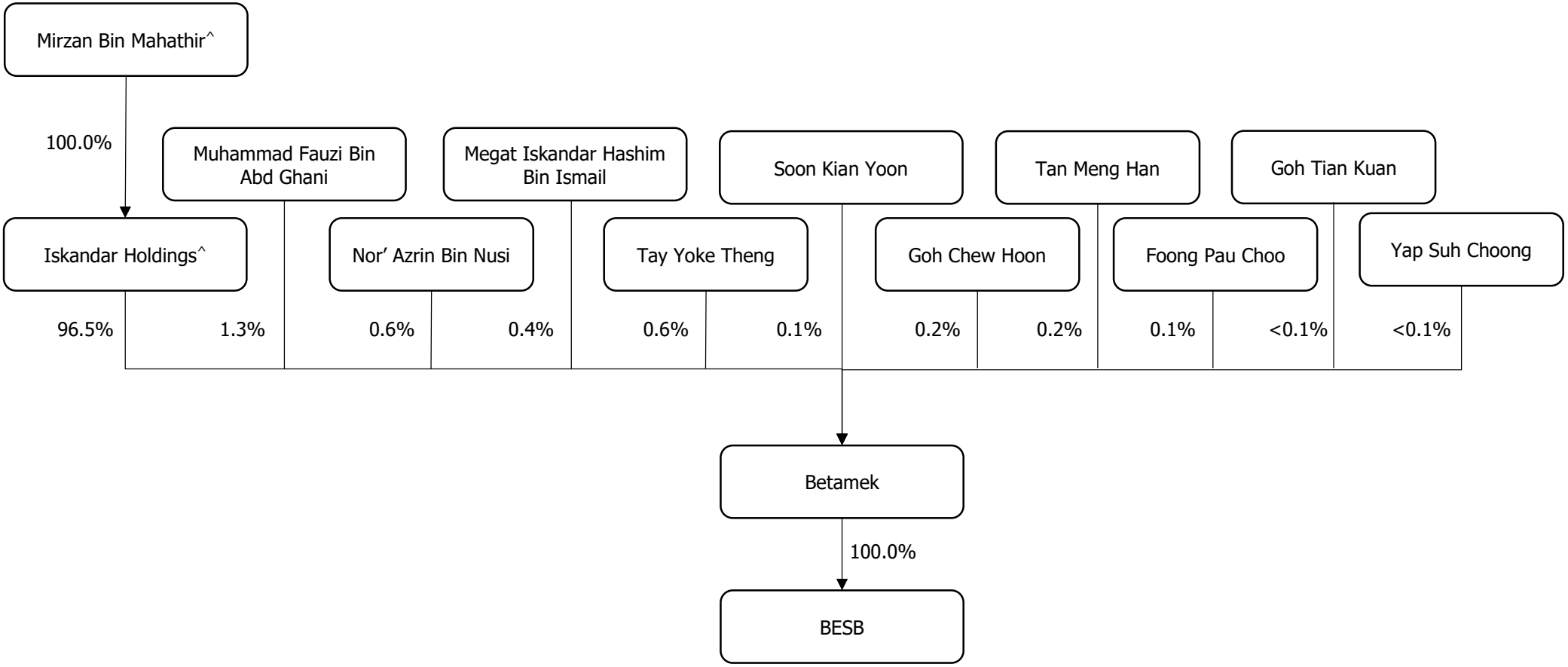



**Note**:

^ The Senior Management Shareholders' shareholdings in BESB were held in trust by Iskandar Holdings.

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

**After Acquisition but before our IPO**

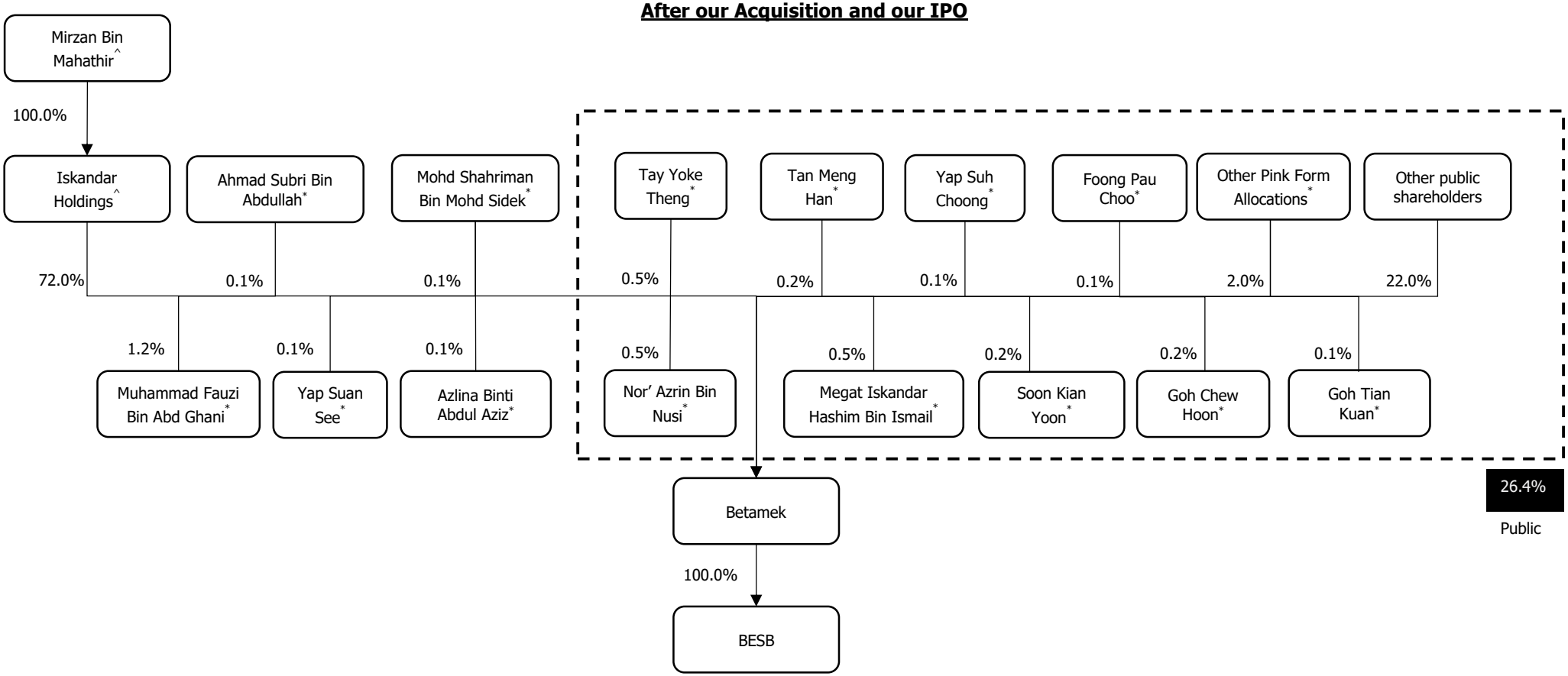



**Note:**

^ Promoters of Betamek.

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

**After our Acquisition and our IPO**




**Notes:**

^ Promoters of Betamek.

* Assuming that all the Eligible Persons will subscribe for the Pink Form Allocations.

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

### 6.4 SUBSIDIARY

Details of our subsidiary as at LPD are summarised as follows:

| Company / Registration Number | Date / Place of incorporation | Issued share capital | Effective equity interest | Principal activities / Principal place of business |
|---|---|---|---|---|
| | | RM'000 | % | |
| BESB / 198901008551 (185853-K) | 23 August 1989 / Malaysia | 8,000 | 100.0 | Provision of EMS for the automotive markets predominantly in Malaysia, to undertake D&D, procurement and manufacturing as well as after-sales services in respect of the assembly and production of fully-assembled automotive electronic products/ Malaysia |

Details of the share capital of our subsidiary are set out in Section 15.2.

As at LPD, we do not have any associated company.

### 6.5 MATERIAL CONTRACTS

Save as disclosed below, there were no contracts which are or may be material (not being contracts entered into in the ordinary course of business) entered into by our Group for FYE 2019 to 2022 and up to LPD:

(a) Two (2) share purchase agreements both dated 21 March 2022 between our Company and Iskandar Holdings for the Acquisition, which was completed on 6 September 2022; and

(b) Underwriting agreement dated 13 September 2022 between our Company and M&A Securities for the underwriting of 36,000,000 Issue Shares for an underwriting commission of 2.5% of the IPO Price multiplied by the number of Issue Shares underwritten.

### 6.6 PUBLIC TAKE-OVERS

During the last financial year and the current financial year up to LPD, there were:

(a) No public take-over offers by third parties in respect of our Shares; and

(b) No public take-over offers by our Company in respect of other companies' shares.

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

### 6.7 MAJOR APPROVALS AND LICENCES

As at LPD, there are no other major approvals, major licences and permits issued to our Group in order for us to carry out our operations other than those disclosed below:

| No. | Licencee | Issuing authority | Date of issue/ Date of expiry | Nature of approval/ Licences | Equity and/or major conditions imposed | Compliance status |
|---|---|---|---|---|---|---|
| (a) | BESB | MITI | 14 June 2007 / Nil | Manufacturing licence for the manufacture of cigarette lighter assembly and cigarette lighter indicator lens at Lot 137, Lingkaran Taman Industri Integrasi Rawang 2, Taman Industri Integrasi Rawang, 48000 Rawang, Selangor | (a) The location is subject to the approval of the State Government and Department of Environment. | Complied |
| | | | | | (b) At least 75% of the BESB's shares shall be held by Malaysians including 51% of the reserved shares. MITI's approval is required for the sale of the shares.(1) | Complied |
| | | | | | (c) BESB is required to provide training to Malaysians so as to ensure transfer of technology and skills at all levels of workforce. | Complied |
| | | | | | (d) BESB shall implement the project as approved, in compliance with the laws and regulations in Malaysia. | Complied |
| (b) | BESB | MITI | 27 December 2010 / Nil | Manufacturing licence for the manufacture of multimedia, light indicator and reverse camera at Lot 137, Lingkaran Taman Industri Integrasi Rawang 2, Taman Industri Integrasi Rawang, 48000 Rawang, Selangor | (a) The location is subject to the approval of the State Government and Department of Environment. | Complied |
| | | | | | (b) At least 75% of BESB's shares shall be held by Malaysians, including 51% of the reserved shares. MITI's approval is required for the sale of the shares.(1) | Complied |
| | | | | | (c) BESB is required to provide training to Malaysians so as to ensure transfer of technology and skills at all levels of workforce. | Complied |

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

| No. | Licencee | Issuing authority | Date of issue/ Date of expiry | Nature of approval/ Licences | Equity and/or major conditions imposed | Compliance status |
|---|---|---|---|---|---|---|
| | | | | | (d) BESB shall implement its project, as approved, in compliance with the laws and regulations in Malaysia. | Complied |
| (c) | BESB | MITI | 25 August 2017 / Nil | Manufacturing licence for the manufacture of control assembly, air conditioners at Lot 137, Lingkaran Taman Industri Integrasi Rawang 2, Taman Industri Integrasi Rawang, 48000 Rawang, Selangor | (a) The location is subject to the approval of the State Government and Department of Environment. | Complied |
| | | | | | (b) At least 75% of the BESB's shares shall be held by Malaysians including 51% of the reserved shares. MITI's and MIDA's approvals are required for the sale of the shares.(1) | Complied |
| | | | | | (c) BESB is required to provide training to Malaysians so as to ensure transfer of technology and skills at all levels of workforce. | Complied |
| | | | | | (d) BESB shall comply with the condition of Capital Investment Per Employee (CIPE) of at least RM140,000.00 by 2020. | Complied |
| | | | | | (e) Total full-time employment shall consist of at least 80% Malaysians. Employment of foreigners including employees acquired through outsourcing is to be subject to the current policy. | Complied |
| | | | | | (f) BESB shall implement its project, as approved, in compliance with the laws and regulations in Malaysia. | Complied |

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

| No. | Licencee | Issuing authority | Date of issue/ Date of expiry | Nature of approval/ Licences | Equity and/or major conditions imposed | Compliance status |
|---|---|---|---|---|---|---|
| (d) | BESB | MITI | 19 September 2019 / Nil | Manufacturing licence for the manufacture of USB charger, power socket, lighting connector and control panel at Lot 137, Lingkaran Taman Industri Integrasi Rawang 2, Taman Industri Integrasi Rawang, 48000 Rawang, Selangor | (a) The location is subject to the approval of State Government. | Complied |
| | | | | | (b) BESB shall inform MITI and MIDA of the sale of shares. | Complied |
| | | | | | (c) BESB is required to provide training to Malaysians so as to ensure transfer of technology and skills at all levels of workforce. | Complied |
| | | | | | (d) BESB shall comply with the condition of CIPE of at least RM140,000.00 by 2020. | Complied |
| | | | | | (e) The total existing employee when the application was filed with MIDA is 335 persons. Total additional full-time employment shall consist of at least 80% Malaysians. The employment of foreigners including employees acquired through outsourcing shall be subject to the current policy. | Complied |
| | | | | | (f) Total full-time employment shall consist of at least 80% Malaysians. Employment of foreigners including employees acquired through outsourcing is to be subject to the current policy. | Complied |
| | | | | | (g) BESB shall implement its project, as approved, in compliance with the laws and regulations in Malaysia. | Complied |

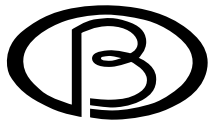
## 6. INFORMATION ON OUR GROUP *(Cont'd)*

**Note:**

(1) Reserved shares refer to shares to be reserved for Bumiputera.

### 6.8 TRADEMARKS

As at LPD, our Group does not own any trademark, save the following:

| Trademarks | Application No. / Filling date | Class/Description | Status | Place of registration | Validity period |
|---|---|---|---|---|---|
|  | TM2022001258 / 14 January 2022 | Class 9 / car cassette players; car navigation computers; car radios; car stereos; car video recorders | MyIPO has objected to the registration of the trademark on the ground that it is not represented in a unique or special manner, and lacks distinctive character, and hence, does not comply with the requirements of the law to be a registered trademark. We have been given until mid-October 2022 to appeal against MyIPO's objection (1) | Malaysia | N/A |

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

| Trademarks | Application No. / Filing date | Class/Description | Status | Place of registration | Validity period |
|---|---|---|---|---|---|
| BETAMEK | TM2022001187 / 13 January 2022 | Class 9 / car cassette players; car navigation computers; car radios; car stereos; car video recorders | Our application for registration of the trademark has been accepted by MyIPO, and published in the Intellectual Property Official Journal on 25 August 2022 (2) | Malaysia | N/A(2) |

**Notes**:

(1) The estimated timeframe for registration of the trademark is approximately 24 to 36 months from our submission of the appeal to MyIPO's objection to the registration of the trademark, assuming the appeal is successful and there is no opposition from any third party thereafter.

(2) Based on the law, the registration of this trademark may be opposed by any third party by filling a notice of opposition with the MyIPO within 2 months from 25 August 2022. Assuming there is no opposition from any third party to the registration of the trademark by 25 October 2022, the trademark is expected to be registered by December 2022 with a 10 years validity period from the date of the application for registration of this trademark on 13 January 2022.

We do not expect to be materially impacted if the trademarks are not registered. For avoidance of doubt, if the trademarks are not granted registration, we are still entitled as proprietor of the unregistered trademarks to continue using them in the ordinary course of our business. In addition, while we are not entitled to initiate legal action under the Trademarks Act 2019 to prevent any unauthorised use of any trademark which is similar or identical to our Group's trademarks, we will still have common law right to initial legal action against any third party for passing off or misrepresenting their goods or services as those of our Group and causing damage to the goodwill and reputation of our Group's business.

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

### 6.9 PROPERTY, PLANT AND EQUIPMENT

#### 6.9.1 Properties owned by our Group

The summary of the material property owned by our Group as at LPD is set out below:

| No. | Postal address/ Title details | Description of property/ Existing use/ Expiry of lease (if any)/ Category of land use (if any) | Land area/ Built-up area | Date of purchase/ Date of CCC | Encumbrance | Audited NBV as at 31 March 2022 |
|---|---|---|---|---|---|---|
| | | | | | | RM'000 |
| (a) | Lot 137, Lingkaran Taman Industri Integrasi Rawang 2, Taman Industri Integrasi Rawang, 48000 Rawang, Selangor/ Geran 212264, Lot 21177, in the Mukim Rawang, District of Gombak, State of Selangor | Industrial land and a 2-storey factory building with a single storey ancillary building erected thereon/ Headquarters of Betamek comprising office and factory/ Freehold/ Industrial | 14,583 sq m/ 7,823 sq m | 1995/ [(1)]16 February 2021 | Charged to Maybank Islamic Berhad | 20,167 |
| | | | | | | **20,167** |

**Note:**

(1) CF was issued in May 1997 for the completion of the original building. Subsequently, CCC was issued on 16 February 2021 for the renovation of the factory.

The property owned by our Group is not in breach of any land use conditions and/or non-compliance with current requirements, land rules or building regulations/by-laws, which will have material adverse impact on our operations as at LPD. Our Rawang Factory has obtained all the necessary licenses and certificates, including the fire certificate.

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

### 6.9.2 Properties rented by our Group

The summary of the material property rented by our Group as at LPD is set out as below:

| No. | Postal address | Landlord/ Tenant | Description/ Existing use | Built-up area | Period of tenancy/ Rental per annum |
|---|---|---|---|---|---|
| | | | | sq m | |
| (a) | No. 12A-1, Ground Floor, Jalan Indah 1, Taman Industri Rawang Indah, 48000 Rawang, Selangor | WTN Construction Sdn Bhd/ BESB | Ground floor of a 2-storey shoplot/ General storage (non-hazardous goods) | 165.8 | 1 June 2022 to 31 May 2023 (with an option to renew for 1 year subject to renegotiation of rental)/ RM37,200 |

The property rented by our Group is not in breach of any other land use conditions and/or are in compliance with current statutory requirements, land rules or building regulations or by laws, which will have material adverse impact on our operations as at LPD.

### 6.9.3 Acquisition of properties

Our Group has not acquired nor entered into any agreements to acquire any properties during FYE 2019 to 2022 and up to LPD.

### 6.9.4 Material machinery

Details of our Group's material machinery are as follows:

| Machinery and equipment | Function | No. of units | Average lifespan | Average age | Audited NBV as at 31 March 2022 |
|---|---|---|---|---|---|
| | | | years | years | RM'000 |
| **SMT mounting** | | | | | |
| PCB laser marking machine | To pass the laser beam over the surface of the PCBs for bar codes marking | 2 | 10 | 2.58 | 709 |
| PCB cleaning machine | To remove all contamination on the surface of PCB | 2 | 10 | 1.17 | 256 |

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

| Machinery and equipment | Function | No. of units | Average lifespan | Average age | Audited NBV as at 31 March 2022 |
|---|---|---|---|---|---|
| | | | years | years | RM'000 |
| Chip mounter | To place a broad range of electronic components such as capacitors, resistors, IC onto the PCB at high speed and precision | 3 | 10 | 4.67 | 2,532 |
| Solder paste printer | To accurately deposit solder paste on the PCB | 2 | 10 | 1.17 | 569 |
| SPI machine | To visually monitor the PCB for defects in the solder paste, and uses 3-D imaging to detect issues such as scratches, stains and nodules | 2 | 10 | 1.17 | 1,176 |
| 3D AOI machine | To perform visual inspection automatically on the PCBAs for defects | 2 | 10 | 5.17 | 155 |
| **Offline assembly** | | | | | |
| Button laser marking machine | To laser mark characters, logos and other graphics on the button and knobs | 3 | 10 | 11.17 | <1 |
| Auto wave soldering machine | To solder wave PCBs with electronic components | 1 | 10 | 0.92 | 619 |
| **Inspection and testing operations** | | | | | |
| Product aging heater system | To identify defects in a short period of time and ensures the products are able to meet user requirements | 1 | 10 | 1.17 | 75 |
| Component tester | To check whether the right component has been used, placed in its defined location, and positioned accurately | 1 | 10 | 2.67 | 40 |
| Defect detection machine (2D AOI) | To inspect and detect defections with high accuracy | 2 | 10 | 2.67 | 207 |

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

| Machinery and equipment | Function | No. of units | Average lifespan | Average age | Audited NBV as at 31 March 2022 |
|---|---|---|---|---|---|
| | | | years | years | RM'000 |
| **Others** | | | | | |
| Smog hog machine | To remove airborne oil, smoke and coolant mist contaminants | 6 | 10 | 8.67 | <1 |
| Forklift | To transport inventory and finished goods | 1 | 10 | 4.67 | 4 |
| | | | | **Total** | **6,302** |

We conduct periodic inspections and maintenance of our machinery and undertake certain repair works when necessary. Our maintenance procedures include oiling, corrosion prevention and cleaning. The machinery that we own are commonly used in the EMS industry and are generally available from the local and overseas market. Machinery which is fully depreciated would have surpassed its useful life. However, although certain machinery are fully depreciated, they still can operate effectively and efficiently. If the machinery is well maintained and can operate efficiently and effectively, it will not be disposed. Fully depreciated machinery are disposed when they cannot operate effectively, or are functionally obsolete.

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## 6. INFORMATION ON OUR GROUP *(Cont'd)*

### 6.9.5 Material capital expenditures and divestitures

#### (a) Material capital expenditures

Save for the expenditures disclosed below, there were no other capital expenditures (including interests in other corporations) made by us for FYE 2019 to 2022 and up to LPD:

| | At cost | | | | |
|---|---|---|---|---|---|
| **Capital expenditures** | **FYE 2019 RM'000** | **FYE 2020 RM'000** | **FYE 2021 RM'000** | **FYE 2022 RM'000** | **1 April 2022 up to LPD RM'000** |
| Freehold building and renovation | - | 4,466 | 16,130 | 1,483 | 95 |
| Plant and machinery | 488 | 396 | 7,011 | - | - |
| Motor vehicles | 76 | - | 104 | 71 | - |
| Tools, equipment and moulds | 510 | 1,693 | 2,763 | 1,643 | 46 |
| Furniture and office equipment | 70 | 709 | 881 | 213 | 92 |
| | **1,144** | **7,264** | **26,889** | **3,410** | **233** |

**FYE 2019**

For FYE 2019, our capital expenditures mainly comprised:

(a) Various tools, equipment and moulds of RM0.5 million; and

(b) Plant and machinery of RM0.5 million being mainly AOI machines.

**FYE 2020**

In FYE 2020, our capital expenditures mainly comprised:

(a) Renovation in relation to Rawang Factory of RM4.5 million;

(b) Various tools, equipment and moulds of RM1.7 million; and

(c) New furniture and office equipment of RM0.7 million.

**FYE 2021**

In FYE 2021, our capital expenditures mainly comprised:

(a) Continued renovation of Rawang Factory for RM16.1 million;

(b) Plant and machinery for RM7.0 million being mainly a solder paste printing machine (including chip mounters), in-line SPI system, laser marking machine and wave soldering machine; and

(c) Various tools, equipment and moulds of RM2.8 million.

**FYE 2022**

In FYE 2022, our capital expenditures mainly comprised:

(a) Continued renovation of Rawang Factory of RM1.5 million; and

(b) Various tools, equipment and moulds of RM1.6 million.

The above capital expenditures were primarily financed by a combination of bank borrowings and internally generated funds. Our capital expenditures are mainly driven by our business growth as well as for replacement purposes.

**(b) Material capital divestitures**

Save for the divestitures disclosed below, there were no other capital divestitures (including interests in other corporations) made by us for FYE 2019 to 2022 and up to LPD:

| | At cost | | | | |
|---|---|---|---|---|---|
| **Capital divestitures** | **FYE 2019** RM'000 | **FYE 2020** RM'000 | **FYE 2021** RM'000 | **FYE 2022** RM'000 | **1 April 2022 up to LPD** RM'000 |
| Freehold building and renovation | - | 7,603 | 3,977 | - | - |
| Plant and machinery | - | 110 | 4,176 | - | - |
| Motor vehicles | - | - | - | 489 | - |
| Tools, equipment and moulds | 352 | 351 | 1,276 | 263 | - |
| Furniture and office equipment | - | - | 430 | - | - |
| | **352** | **8,064** | **9,859** | **752** | **-** |

For FYE 2020 and FYE 2021, we have disposed a SMT line, moulds as well as other machineries from our rented factory following the relocation back to our renovated Rawang Factory. In conjunction thereto, we have also written off renovation costs due to demolition of certain parts of the Rawang Factory. For FYE 2022, we have disposed 4 units of passenger vehicles to non-related party and 14 units of moulds which were obsolete and are no longer functioning. Save for the foregoing, our capital divestitures were carried out in the ordinary course of business as part of the periodic review of our fixed asset register to identify and eliminate those assets which have been fully depreciated or no longer in use or obsolete or surpassed their useful lives.

As at LPD, other than the proposed utilisation of proceeds from our Public Issue for our capital expenditure as disclosed in Section 4.9.1, we do not have any material capital expenditures and divestitures currently in progress, within or outside Malaysia.

**6.9.6 Material plans to construct, expand or improve our facilities**

Save for the proposed utilisation of proceeds from our IPO to finance the capital expenditure as set out in Section 4.9.1, our Group does not have any other immediate plans to construct, expand or improve our facilities as at LPD.

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

### 6.10 RELEVANT LAWS, REGULATIONS, RULES OR REQUIREMENTS

The following is an overview of the major laws, regulations, rules and requirements governing the conduct of our Group's business and environmental issue which may materially affect our business operations:

**(a) Industrial Co-Ordination Act 1975 ("ICA")**

Pursuant to Section 3(1) of the ICA and the Guideline on the Application for E-Manufacturing Licence issued by MIDA, all manufacturing companies with shareholders' funds of RM2.5 million and above or engaging 75 or more full-time paid employees are required to apply to the MITI for a manufacturing licence. Failure to comply is an offence and such person shall be liable on conviction to a fine not exceeding RM2,000 or to a term of imprisonment not exceeding 6 months and to a further fine not exceeding RM1,000 for every day during which such default continues.

"Manufacturing activity" is defined under the ICA as the "making, altering, blending, ornamenting, finishing or otherwise treating or adapting any articles or substance with a view to its use, sale, transport, delivery or disposal and includes the assembly of parts and ship repairing but shall not include any activity normally associated with retail or wholesale trade".

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

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

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

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

As at LPD, our subsidiary, BESB, which carries out manufacturing activity, holds valid manufacturing licences issued by the MITI.

**(b) Environmental Quality Act 1974 ("EQA")**

The EQA sets out provisions in respect of prevention, abatement, control of pollution and enhancement of the environment. It is an offence under the EQA for any person, unless licensed to do so, to amongst others:

(i) emit or discharge wastes into the atmosphere;

(ii) pollute or cause or permit to be polluted any soil or surface of any land; or

(iii) emit, discharge or deposit any wastes into any inland waters,

in contravention of the acceptable conditions specified in the EQA.

The EQA also empowers the Minister charged with the responsibility for environment protection to make regulations specifying acceptable conditions for the emission, discharge or deposit of environmentally hazardous substances, pollutants or wastes or the emission of noise into the environment. Among the regulations which have been issued include the Environmental Quality (Scheduled Wastes) Regulations 2005 and Environmental Quality (Clean Air) Regulations 2014**.**

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

The Environmental Quality (Scheduled Wastes) Regulations 2005 specifies, among others, the following requirements:

(i) scheduled wastes shall be disposed of at prescribed premises only and shall, as far as practicable, before disposal, be rendered innocuous;

(ii) scheduled wastes shall be treated at prescribed premises or at on-site treatment facilities only and the residuals from treatment of scheduled wastes shall be treated and disposed of at prescribed premises; and

(iii) any person who generates scheduled wastes shall keep an accurate and up-to-date inventory of scheduled waste generated, treated and disposed of in accordance with the Fifth Schedule of the Environmental Quality (Scheduled Wastes) Regulations 2005 and of materials or product recovered from such scheduled wastes for a period up to 3 years from the date on which the scheduled wastes was generated.

Our Group has appointed several licensed service providers to carry out waste collection, transportation, disposal, treatment and waste management related services at Rawang Factory.

Pursuant to the Environmental Quality (Clean Air) Regulations 2014, every premises shall be equipped with an air pollution control system in accordance with the specifications as determined by the Director General of Environmental Quality, where the owner or occupier of the premises shall operate and maintain the air pollution control system in accordance with sound engineering practice and ensure that all components of the air pollution control system are in good working condition.

Our Rawang Factory has been equipped with air pollution control systems, which construction has been acknowledged by the Department of Environment.

As at LPD, our Group has not received any notices, penalties or reprimands from the Department of Environment for non-compliance of the environmental laws and regulations which materially affect our operations.

Details of the major approvals, licences and permits issued to our Group in order for us to carry out our operations are set out in Section 6.7. Save as disclosed therein, as at LPD, there are no other material laws, regulations, rules or requirements governing the conduct of our business and/or major environmental issue which may materially affect our operations.

### 6.11 EMPLOYEES

As at LPD, we have a total workforce of 392 full-time employees, all of whom are Malaysian.

The breakdown of our employees as at 31 March 2022 and LPD are as follows:

| | No. of employees | |
|---|---|---|
| **Department** | **As at 31 March 2022** | **As at LPD** |
| Director | 2 | 2 |
| Top management[(1)] | 3 | 3 |
| Account | 5 | 5 |
| Marketing | 3 | 3 |
| Procurement | 9 | 9 |
| Human resources | 11 | 10 |

## 6. INFORMATION ON OUR GROUP *(Cont'd)*

| | No. of employees | |
|---|---|---|
| **Department** | **As at 31 March 2022** | **As at LPD** |
| R&D | 14 | 15 |
| Production | 240 | 249 |
| QC and service | 65 | 71 |
| Logistics | 23 | 25 |
| | **375** | **392** |

**Note:**

(1) The top management comprises of Chief Operating Officer, Chief Financial Officer, General Manager and Head of Procurement and Administration namely, Megat Iskandar Hashim Bin Ismail, Nor' Azrin Bin Nusi and Tay Yoke Theng respectively.

There were no significant changes in the number of employees of our Group from 31 March 2022 up to LPD.

None of our employees belong to any labour union and as at LPD, there has been no material dispute between our management and our employees. Over FYE 2019 to 2022, there has not been any incident of work stoppage or labour disputes that has materially affected our operations.

Our Group is in compliance with the Government's directive on COVID-19 screening for all our workers.

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## 7. BUSINESS OVERVIEW

### 7.1 INCORPORATION AND HISTORY

Our Company was incorporated in Malaysia under the Act as a private limited company on 7 December 2021 under the name of Betamek Sdn Bhd. On 18 March 2022, we converted into a public limited company and adopted our present name. Our Company was incorporated as a special purpose vehicle to facilitate the listing on the ACE Market.

Our Group's history can be traced back to the incorporation of BESB on 23 August 1989. Through our subsidiary, we are principally engaged in the provision of EMS for the automotive markets predominantly in Malaysia, where we undertake D&D, procurement and manufacturing as well as after-sales services in respect of the assembly and production of fully-assembled automotive electronic products.

***We evolved from an assembler of vehicle audio products to an EMS specialist for automotive electronics***

Our Company was founded by the late Lin Shih-Hsien who passed away on 25 November 2016 and Lin Chung-Hong. At the point of incorporation, our business operations were undertaken from a rented space located in Resource Complex, Segambut. In 1990, we commenced manufacturing activities upon obtaining a manufacturing license from MITI. This allowed us to undertake the assembly of vehicle audio products comprising cassette players and radios, as well as trading of semi-knocked down and completely knocked down components for the export markets.

Under Lin Shih-Hsien's leadership, we ventured into R&D to develop mechanical and electronic designs of PCBs and manufacturing of vehicle audio products. Our R&D efforts bore results and we succeeded in marketing our first vehicle audio products in 1990, being radios with cassette players.

In 1993, Lin Shih-Hsien invited our Managing Director, Mirzan Bin Mahathir to join BESB. Mirzan Bin Mahathir became a substantial shareholder of BESB upon acquiring 35% equity interest from Lin Shih-Hsien in BESB at a consideration sum of RM0.7 million and was appointed as a director in 1993. Under the leadership of Mirzan Bin Mahathir, BESB made significant inroads in the Malaysian automotive market when we were appointed by PERODUA to supply audio systems for PERODUA's Kancil models.

In 1994, we were engaged by Usahasama Proton-DRB Sdn Bhd ("**USPD**") via a letter of intent to design, develop and manufacture vehicle radios with cassette players for PROTON Satria models. Pursuant to the letter of intent issued by USPD and accepted by BESB on 19 December 1994, BESB will supply and deliver radio and cassette player to USPD, subject to USPD's issuance of purchase orders from time to time to BESB, and BESB meeting USPD's quality, specifications, delivery and requirements. The letter of intent shall not be deemed, nor constitute a binding contract, and USPD shall reserve the right to terminate the letter of intent. USPD may also, at its discretion, require a supply agreement to be entered into with BESB, although no such supply agreement has been entered into subsequently. This engagement continued until 1997. During the same year, we commenced the design, development and manufacturing of radios for Nissan commercial vehicles.

In 1995, we acquired a parcel of freehold land on which the Rawang Factory is situated, measuring approximately 14,583 sq m, where we then constructed a factory with ancillary buildings for our manufacturing operations. The Rawang Factory began commercial operations in 1997.

## 7. BUSINESS OVERVIEW *(Cont'd)*

In 1994, Mirzan Bin Mahathir acquired an additional 16% equity interest of BESB from Lin Chung-Hong, the brother of the late Lin Shih-Hsien, at a consideration sum of RM0.3 million, thus increasing his shareholdings in BESB from 35% to 51%. Lin Chung-Hong was a passive investor and did not hold any position in BESB. In 1996, our substantial shareholder, Iskandar Holdings subscribed for 34% of the enlarged share capital of BESB at a subscription sum of RM2.0 million, and acquired Mirzan Bin Mahathir's 17% equity interest in BESB at a consideration sum of RM1.0 million, thus emerging as the holding company of BESB holding 51% of the equity interest of BESB. In 2000, Iskandar Holdings acquired an additional 14% equity interest of BESB from Lin Chung-Hong at a consideration sum of RM4.8 million, thus increasing his shareholding in BESB from 51% to 65%. The purchase consideration of RM4.8 million was arrived at on a willing-buyer-willing-seller basis, after taking into consideration the PAT of BESB for FYE 1999 of RM1.6 million, over which the purchase consideration represents 22 times the PAT of BESB for FYE 1999. On 2 January 2022, Mirzan Bin Mahathir was appointed as the Managing Director of our Group. On 8 March 2022, Iskandar Holdings acquired 35% equity interest in BESB from Huang Yen-Ling, the spouse of the late Lin Shih-Hsien who did not hold any position in BESB, at a consideration sum of RM38.5 million, thus increasing his shareholding in BESB from 65% to 100%. The purchase consideration of RM38.5 million was arrived at on a willing-buyer-willing-seller basis, after taking into consideration the PAT of BESB for FYE 2021 of RM12.2 million, over which the purchase consideration represents 9 times the PAT of BESB for FYE 2021.

In 1996, BESB was certified compliant to the Quality Management System ISO 9002:1994 by SIRIM Berhad in relation to the scope of quality systems for quality assurance in production, installation and servicing. These accreditations serve as a testament to our commitment to deliver quality services and products to our customers. Our quality management system was also certified compliant to MS ISO 9001:2000 by SIRIM QAS Sdn Bhd for the scope of manufacturing of car audio products, valid from 1996 until 2004, which was subsequently extended to 2007.

We commenced the D&D and manufacturing of vehicle radios for MBF Peugeot Sdn Bhd and Naza Automotive Manufacturing Sdn Bhd in 1997 and 2003 respectively.

In 2008, our quality management system was certified compliant to ISO/TS 16949:2002 by SIRIM QAS International Sdn Bhd for the scope of design and manufacture of car audio products (radio, cassette and CD player and audio accessories), valid until 2011. The ISO/TS 16949:2002 was developed by members of the International Automotive Task Force (IATF), a group of automotive manufacturers and trade associations, and published by the ISO. The ISO/TS 16949:2002 focuses on quality system requirements for the design and development, production and installation and service of automotive-related products. Securing this certification was a major milestone for our Group as it signified that BESB's quality system requirements meet stringent automotive industry requirements and that BESB is able to support the automotive industry supply chain. In 2011, we were certified compliant to ISO/TS 16949:2009 by SIRIM QAS International Sdn Bhd for the scope of design and manufacture of car audio products (radio, cassette and CD player and audio accessories) and assembly of outer mirror switches and cigarette lighters, valid until 2014.

In 2011, we were granted pioneer status by MITI under which we enjoyed 70% tax exemption for the production of car audio Bluetooth devices for a period of 5 years, from 2010 to 2015. Subsequently in 2011, we were granted pioneer status for the production of multimedia players for a period of 5 years from 2011 to 2016.

In 2014, our quality management system was certified with ISO/TS 16949:2009 by SIRIM QAS International Sdn Bhd for the scope of design and manufacturing of car audio products (radio, CD, DVD and multimedia player and audio accessories), and assembly of outer mirror switch, cigarette lighter, power socket and gear lens, valid from 2014 until 2017. In 2018, our quality management system was assessed and subsequently upgraded to IATF 16949:2016 by SIRIM QAS International Sdn Bhd for same scope, valid from 2018 to 2021. Our IATF 16949:2016 certification by SIRIM QAS International Sdn Bhd was subsequently renewed from 2021 until 2024.

## 7. BUSINESS OVERVIEW *(Cont'd)*

In 2019, we upgraded the Rawang Factory to increase the efficiency of our production workfloor space by improving the layout of our production areas as well as supporting departments. We further upgraded our SMT production station, including acquiring an additional automated line to increase our SMT capacity. We further installed electrostatic discharge control systems, temperature and humidity control systems as well as ISO Class 7 and 8 manufacturing environments for our production area in Rawang Factory. During this upgrading process, we temporarily relocated our manufacturing activities to 6 units of rented light industrial lots located in close proximity to Rawang Factory to ensure that we would consistently be able to meet the delivery milestones of our customers. Our Group's renovation was completed in 2 phases. Upon the completion of the first phase renovation in August 2020, we relocated partially and subsequently relocated completely our operations back to the upgraded Rawang Factory upon completion of the second phase renovation in February 2021. The upgraded Rawang Factory now has a built-up area of 7,823 sq m for our office building, factory and supporting facilities. With the upgrade of Rawang Factory, we are able to better position BESB as an international EMS industry player.

In 2021, as a result of our R&D efforts, we successfully relaunched our vehicle infotainment system with our proprietary platform. Please refer to Section 7.16 for further details on our R&D efforts.

In June 2022, our subsidiary BESB became a participant in the United Nations Global Compact on human rights, labour and anti-corruption. The United Nations Global Compact is a strategic initiative that supports global companies that are committed to responsible business practices in the areas of human rights, labour, the environment and corruption. Our membership in the United Nations Global Compact is a demonstration of our Group's commitment to corporate sustainability.

In August 2022, our Group completed the initial audits and are pending issuance of the respective quality certificates for ISO 14001:2015 and ISO 45001:2018. The ISO 14001:2015 specifies the requirements for an environmental management system that an organization can use to enhance its environmental performance, and is used by organisations to who seek to manage their environmental responsibilities in a systematic manner. The ISO 45001:2018 specifies requirements for an occupational health and safety management system, and gives guidance for its use, to enable organisations to provide safe and healthy workplaces by preventing work-related injury and ill health, as well as by proactively improving its occupational health and safety performance.

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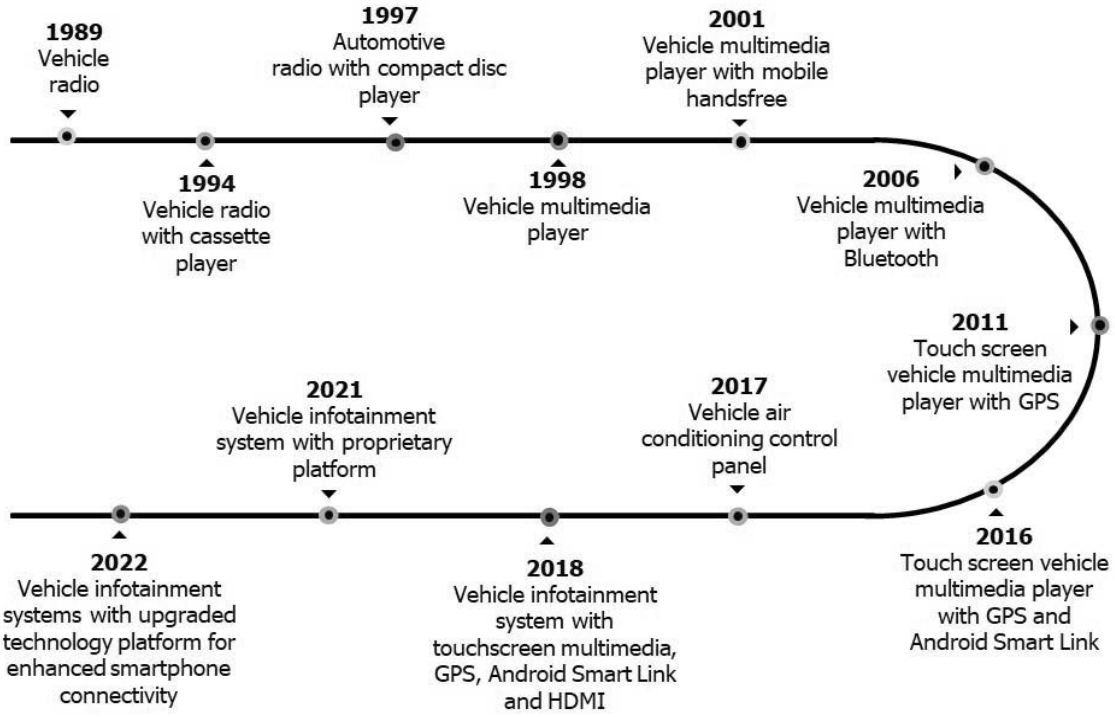
## 7. BUSINESS OVERVIEW *(Cont'd)*

***Our product development***

The evolution of our product development relating to automotive electronics since the commencement of BESB's business is as depicted in the diagram below:




Please refer to Section 7.16 of this Prospectus for further details on our R&D and product development efforts over the years.

### 7.1.1 Key milestones

Our key milestones since commencement of business are as follows:

| Year | Key milestones |
|---|---|
| 1989 | • Incorporation of BESB |
| 1990 | • Commenced our manufacturing activities with the assembly of vehicle audio products |
| 1994 | • Appointed by PERODUA to supply audio systems for PERODUA's Kancil models<br>• Entered into an agreement with Usahasama Proton-DRB Sdn Bhd to design, develop and manufacture vehicle radios with cassette players for PROTON Satria models |
| 1995 | • Acquired land in Rawang and commenced building the Rawang Factory |
| 1996 | • Certified compliant to Quality Management System ISO 9002:1994 by SIRIM Berhad and MS ISO 9001:2000 by SIRIM QAS Sdn Bhd |
| 1997 | • Commenced the D&D and manufacturing of vehicle radios for MBF Peugeot Sdn Bhd<br>• Commenced commercial operations in Rawang Factory |
| 2003 | • Commenced the D&D and manufacturing of vehicle radios for Naza Automotive Manufacturing Sdn Bhd |
| 2008 | • Certified compliant to ISO/TS 16949:2002 by SIRIM QAS International Sdn Bhd |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| Year | Key milestones |
|---|---|
| 2010 and 2011 | • Granted pioneer status by MITI |
| 2011 and 2014 | • Certified compliant to ISO/TS 16949:2009 by SIRIM QAS International Sdn Bhd |
| 2018 and 2021 | • Certified compliant to IATF 16949:2016 by SIRIM QAS International Sdn Bhd |
| 2019 | • Upgraded Rawang Factory |
| 2021 | • Launched vehicle infotainment systems with our proprietary platform |

### 7.1.2 Awards

Over the years, our Group has achieved recognition from the PERODUA Group in terms of product quality, timely delivery and cost competitiveness among all its vendors. To date, BESB has obtained the following awards from the PERODUA Group:

| Year | Key awards |
|---|---|
| 1999 | PERODUA's Best Overall Vendor |
| 2001 | PERODUA's Top 3 Overall Vendor |
| 2002 | PERODUA's Best Delivery Vendor |
| 2004 | PERODUA's Most Improved Vendor |
| 2005 | PERODUA's Excellent Performance Vendor (Non-SMI) |
| 2006 | PERODUA's Rank A – Vendor Environment Awareness |
| 2007 | PERODUA's Excellent Performance Vendor (Non-SMI)<br>Top 100 Outstanding SMEs Golden Bull Awards by Business Media International Sdn Bhd |
| 2008 | PERODUA's Excellent Performance Local Vendor<br>Special Appreciation for PERODUA Service Part Delivery Vendor<br>Top 10 Outstanding SMEs Golden Bull Awards by Business Media International Sdn Bhd |
| 2009 | PERODUA's Excellent Delivery Vendor<br>Asia Pacific Super Excellent Brand by Asia Entrepreneur Alliance Worldwide<br>PERODUA's Excellent Delivery Vendor (Non-SMI) |
| 2010 | PERODUA's Excellent Delivery Vendor (Non-SMI) |
| 2011 | PERODUA's Excellent Performance for Service |
| 2013 | PERODUA's Special Recognition Award |
| 2015 | PERODUA's Excellent Delivery Vendor |
| 2017 | PERODUA's Excellent Delivery Vendor |
| 2018 | PERODUA's Excellent Cost Competitiveness<br>Special Award of Vendor Export by DMC Group |
| 2019 | PERODUA's Best Overall Quality, Cost and Delivery Supplier |

## 7.2 PRINCIPAL BUSINESS ACTIVITIES AND PRODUCTS

We are an EMS provider, specialising in D&D, procurement and manufacturing of customised electronics and components for the automotive industry.

We are principally involved in the D&D and manufacture of:

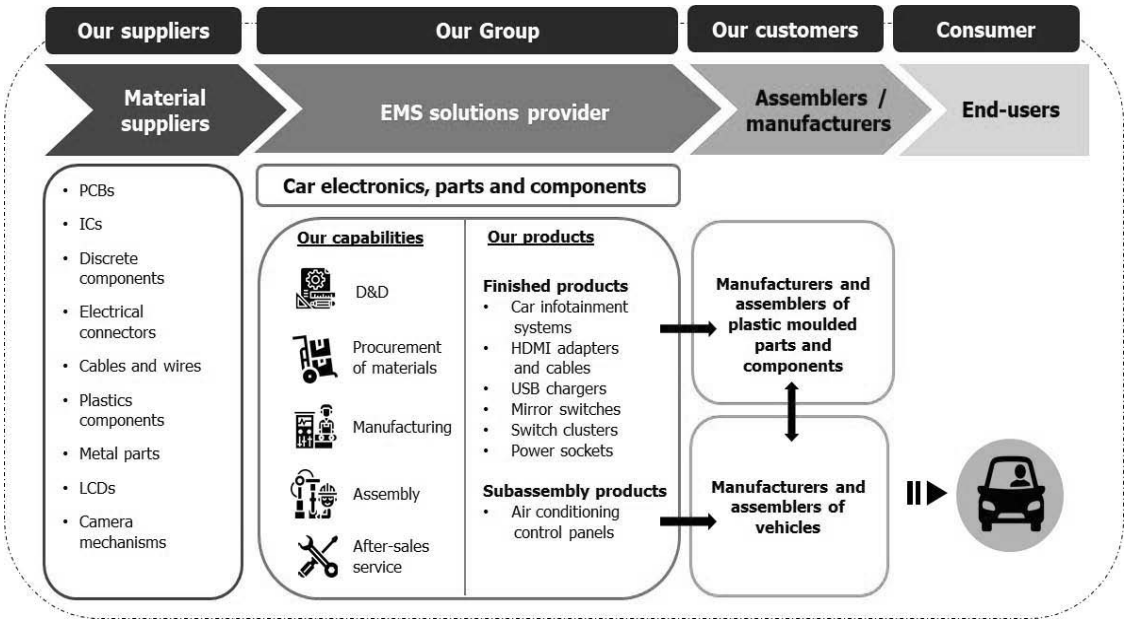
(a) vehicle audio products and components comprising vehicle infotainment systems and audio video accessories (such as HDMI adapters and cables); and

(b) vehicle accessories such as air conditioning control panels, USB chargers, mirror switches, switch clusters and power sockets.

## 7. BUSINESS OVERVIEW *(Cont'd)*

We are able to support the automotive industry value chain as we undertake product D&D, prototyping, board assembly, electronics and mechanical assembly, testing, labelling, packaging and support services for automotive marques.

Our business model is illustrated in the diagram below:




### 7.2.1 D&D

Leveraging on our technical capabilities and experience in automotive electronics, we undertake product D&D in collaboration with our customers. This allows us to design, develop and customise vehicle electronics and components based on our customers' requirements and specifications as well as the latest technologies for specific vehicle models.

We undertake engineering for product development of automotive electronic products. Specifically, we propose and develop the appropriate engineering designs and solutions that meet the specifications of the final products required by our customers for installation in vehicles that they manufacture.

Our involvement in our customers' product D&D phase focuses on facilitating functionality, manufacturability, testability, cost efficiency and speed in assembly as well as value engineering. We mainly provide the following engineering services:

(a) Through our in-house R&D personnel, we design the architecture of the circuitry and link the various ICs on the PCBs. We also provide the corresponding technical consultation that adheres to the desired product specifications and performance.

During the D&D stage, we carry out analysis that covers, among others, complexity of assembly comprising materials and component selection, the number of components and parts, and interfaces to meet functional requirements, PCB layout design, component placement and orientation for the ease of insertion, installation, inspection and repair. The spacing of components is also part of the consideration where it is critical for soldering, test and automated assembly. This includes simulating completed circuits, metal and plastic parts to check on its functional accuracy, performance, structural integrity, safety, hardpoints /breakpoints, connectivity and ease of final installation;

## 7. BUSINESS OVERVIEW *(Cont'd)*

We aim to achieve design enhancement by way of value engineering. To achieve design enhancement, we seek to understand the intended functions of the products and look at the initial design specifications to ascertain if there is any design optimisation that can be improved to enhance the product and/or user experience, as well as contribute to cost efficiencies;

(b) We develop engineering samples as part of our D&D process, conduct testing and adjustments until it meets the target functional specifications;

(c) We develop the corresponding documentation relating to engineering drawings; graphical user interface designs; quality control, performance and functionality test reports; and customer signoffs. We store these documents, and also provide a complete set to our customers for their records purposes; and

(d) We undertake material and component selection, cost analysis, and quantitative analysis of design for manufacturing and assembly to optimise manufacturing process at minimum cost. This is focused on minimising the number of assembly and manufacturing steps.

We are able to support our customers in product design and engineering, including prototype development and feasibility studies, for various vehicle models based on industry trends and consumer demands. This allows us to forge long-term business relationships with our customers.

### 7.2.2 Our EMS solutions

Our EMS solutions for automotive electronics are as follows:

**(a) PCBA**

A PCBA is an electronic part comprising a PCB populated with semiconductor components as well as electrical components such as inductors, ports, transistors, ICs and connectors as well as other components depending on the application and desired characteristics of the end product. A PCB is a flat board made of non-conductive material on which the semiconductor and electrical components are surface-mounted. The components are connected electrically by predefined conductive metal pathways, which are copper circuitries that are etched on the surface of the boards.

The PCBA forms the functional structure of an electronic device that supports and connects the semiconductor and electrical components. PCBAs are designed in such a way to facilitate one or more functions of an electronic device, machine or equipment. In a complete electronic product, the PCBA holds and allows communication and integration between electronic components of a system to provide key processing and control functions.

We adopt the SMT method in our manufacturing process to mount semiconductor and electrical components on the PCBs. The SMT is a method of populating electronic circuit boards in which the semiconductors, electronic components and parts are automatically picked and placed directly onto the surface of the PCBs using specialised and automated SMT machines. The PCB bare boards are passed through the SMT machines to form PCBAs. Selected PCBs also pass through the wave soldering machine to form PCBAs.

## 7. BUSINESS OVERVIEW *(Cont'd)*

In addition, our SMT lines are also equipped with SPI and AOI systems to scan for solder paste defects and missing components during the manufacturing of PCBAs. As the PCBAs are made of various complex electronic parts and components, we also conduct tests on the PCBAs for any possible faults or errors which could cause the board to malfunction. These inspection systems and tests enable faults to be detected during the early stage of manufacturing prior to the subassembly process.

Please refer to Section 7.9 for further details on the technology used in our manufacturing process.

### (b) Subassembly

Subassembly is a semi-finished product where the electronic parts such as the PCBAs are assembled and combined with metal and non-metal parts.

Depending on the types of finished products, the subassembly product can be further incorporated with electronic and mechanical parts as well as other subassemblies to form a semi-finished product before it can be combined and ultimately put together as a finished electronic product. These parts include, among others, brackets, frames, connectors, wire harnesses and mechanical switches.

We perform laser etching to mark characters, logos and other graphics on buttons and knobs of plastic housings. The use of laser etching as a method of marking allows backlight illumination to indicate controls during night use of a vehicle or during low light conditions.

Our subassembly process is automated and manually facilitated to combine all the relevant parts and components into a larger product. Some PCB designs may include parts or electronic components that are not suitable to be mounted on the PCBs by SMT or wave soldering. Therefore, these parts or electronic components will be manually soldered. Our subassembly process also includes testing to ensure that all the parts that are assembled are in good working condition according to specifications. The tests conducted during the subassembly process is especially important for areas of the semi-finished products that will not be easily accessible after the next level of box build assembly.

### (c) Box build

Box builds are finished products where we provide end-to-end services including procurement of input materials, board assembly into PCBA and up to the final assembly into a complete finished product. The box build process includes assembly and installation of subassemblies and PCBAs with other components, routing of cables or wires, fabrication of enclosures as well as assembling of outer casing to form a finished product.

The final assembly of the box build product is carried out manually to combine all the relevant parts into plastic and metal enclosures, based on the types of products and specifications of our customers.

Our box build process also includes QC inspection and testing operations to ensure that the finished products are in good working condition according to specifications.

## 7. BUSINESS OVERVIEW *(Cont'd)*

### (d) System build

System build is the last step of our manufacturing process that includes the complex task of connecting PCBA, electronics and mechanical parts, cables and wires.

During system build process, the individual components and/or subassemblies are integrated into a finished product. The integration of the system build products are carried out manually to combine all the relevant parts, devices and modules including configuration, electrical cabling and testing to ensure the system is working in accordance to specifications.

Further, we have customised testing jigs designed and developed by our Production Engineering team to ensure the functionality of the finished product.

## 7.3 OUR MANUFACTURING PROCESS

Our manufacturing process are as detailed below:

### (a) Assembly operations

Our machinery and equipment for our PCB assembly operations are automated and operated by the SMT method, which can produce PCBAs with various specifications for incorporation into different kinds of automotive electronic products.

Our assembly operations are also supplemented by offline assembly and related manufacturing activities. Presently, we have 2 SMT lines in our Rawang Factory, which include solder paste printing, SMT mounting, reflow soldering and 3-D AOI systems. Arising from our R&D team's expertise and experience, we are able to make adjustments on the parts and components of our machinery and equipment to optimise their functions to cater for specific production requirements of PCBAs with different specifications for different models of products.

Our SMT lines can handle micro-components with minimum size of 0.4mm x 0.2mm and average tolerance of ± 5.0μm accuracy. Our SMT assembly is automated with machines that have fine-pitch placement ability to handle micro components with high speed and precision placement capabilities.

### (b) Offline assembly and related manufacturing activities

Our offline assembly and related manufacturing activities comprises wave soldering, manual soldering as well as box build and system build assembly.

We use manual soldering for PCB designs that include electronic components which are not suitable for SMT process or wave soldering. Typically, larger parts and components such as processing modules are not suitable to be inserted and handled by the SMT process or wave soldering and will go through a manual soldering process. We will also carry out manual soldering to attach parts and components which are required to be connected in areas of the PCB with mounting constraints.

## 7. BUSINESS OVERVIEW *(Cont'd)*

### (c) Inspection and testing operations

We perform inspection on all the products at all stages of the manufacturing process as follows:

- **In-process online inspection**

  Online inspection ensures the characteristics of product satisfies the product form-fit-function during the manufacturing process. Form refers to the dimensions, weight, size and visual appearance, and fit refers to the ability of the part or feature to connect to the control systems or user interface. These inspections are performed effectively and reliably through the use of customised testing jigs and visual inspections.

  Finished products that do not meet our criteria and standards will be rejected.

  We perform in-process online inspection during the manufacturing process on all products that we produce. Our QC team will perform QC checks and inspections on a sampling basis to validate production findings.

- **Offline inspection**

  We perform offline inspection to ensure functionality of the final assembled products. This may range from inspection on a sampling basis or inspection on all products, depending on the type of finished products.

  We perform offline inspection on all vehicle infotainment systems and mirror switches that we produce; and on a sampling basis for air conditioning control panels, HDMI adapters and cables as well as USB adapters and cables.

**Testing operations**

We also perform system testing to ensure the finished products that we manufacture are fully functional and configured as per our customers' specifications and requirements.

Various tests will be conducted based on features and functionalities of the products from the aspect of sounds, visuals, movements, connectivity and durability. The in-process online testing is performed on all products by our production team with the help of customised testing jigs and equipment, while our QC team will perform QC checks and inspections on sampling basis to validate production findings. These testing jigs and equipment are designed and developed by our in-house production engineering team.

We perform the following tests to ensure product functionality:

- **In-circuit tests**

  In-circuit tests are used to examine each part of the board to test its individual performance. Typically, these tests are performed on PCBA and semi-finished products or subassemblies, where electrical probes test a populated PCBA, checking for shorts, opens, resistance and capacity as well as other defects which show whether the assembly was correctly fabricated. We use in-circuit test equipment with multiple probes for manufacturing defect analysis. This test verifies the input and output, digital and analogue signal, power supply, audio and other system functionalities of the PCBA and subassemblies.

## 7. BUSINESS OVERVIEW *(Cont'd)*

- **Functional tests**

  Functional tests are carried out on finished products before we proceed to package and deliver to our customers. The product category and functionality will dictate the types of functional tests that will be executed at this stage.

  Below are the types of functional tests performed on our finished products:

  - Temperature test
  - Button and knob durability test
  - GPS navigation signal generator test
  - Bluetooth test
  - Vibration test
  - Radio frequency test
  - Finished product/aging test

Please refer to Section 7.13 for further details on these tests.

### 7.4 OUR RANGE OF PRODUCTS

| Types of products | Product overview | |
|---|---|---|
| Vehicle infotainment systems[1] | • A component installed in the vehicle to provide a unified hardware interface for various audio visual systems, including infotainment screens, GPS, cameras, buttons and system controls for numerous integrated information and entertainment functions<br>• Customised and designed for specific vehicle models<br>• A vehicle infotainment system encompasses Bluetooth, Android Smartlink and GPS features | PERODUA ATIVA<br>  <br>PERODUA MYVI<br>  <br>PERODUA ALZA<br>  |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| Types of products | Product overview | |
|---|---|---|
| | |  |
| | | PERODUA ARUZ  |
| | | PERODUA BEZZA  |
| | | PERODUA AXIA   |
| Mirror switches[2] | • Switches to adjust side view mirror for vertical and horizontal adjustments from the inside of the vehicle, as well as to flip open and close the side view mirrors |  |
| Power sockets[3] | • 12V accessory port that allows users to plug in cigarette lighters, chargers or power inverters in vehicles<br>• Used to charge consumer electronics in vehicles |  |
| Air conditioning control panels[4] | • A system that provides temperature control in the vehicle, and is equipped with adjustment of blower speed, cooling levels and directional configuration of airflow<br>• The required temperate level is set on the control module and users can adjust the temperature according to their preference | PERODUA ATIVA  PERODUA MYVI  |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| Types of products | Product overview | |
|---|---|---|
| | • The air conditioning control panel is customised and designed for specific vehicle models<br>• Equipped with programmable preset memory settings based on user preferences | PERODUA ARUZ  ADM TERIOS  |
| Reverse cameras (manufactured by our OEM suppliers)(5) | • Special type of camera attached to the rear of a vehicle to assist in back up and alleviating rear blind spots<br>• Integrated with vehicle infotainment systems for screen display |  |
| Others<br>- HDMI adapters and cables(6) | • An audio and video interface for transmitting high-definition digital video and audio from a source for display on the infotainment system screen |   |
| - USB adapters and cables(6) | • Single and dual port USB chargers<br>• Variants connected to infotainment systems allow for audio and video playback as well as charging devices<br>• Standalone variants allow for device charging only |  |

**Notes:**

(1) Supplied for the PERODUA ATIVA, PERODUA MVYI, PERODUA ALZA, PERODUA ARUZ, PERODUA BEZZA and PERODUA AXIA vehicle models.
(2) Supplied for the PERODUA AXIA and PERODUA BEZZA vehicle models.
(3) Supplied for the PERODUA MYVI, PERODUA AXIA and PERODUA BEZZA vehicle models.
(4) Supplied for the PERODUA ATIVA, PERODUA MVYI, PERODUA ARUZ, PERODUA ALZA and DAIHATSU TERIOS vehicle models.
(5) Supplied for the PERODUA MVYI, PERODUA ARUZ, PERODUA AXIA and PERODUA BEZZA vehicle models.
(6) Supplied for the PERODUA ATIVA vehicle model.

### 7.5 OUR CUSTOMERS

As at LPD, we manufacture and supply vehicle audio products and components comprising vehicle infotainment systems and audio video accessories as well as air conditioning control panels, USB chargers, mirror switches, switch clusters and power sockets to automotive marques in Malaysia and Indonesia (through PERODUA). We also supply reverse cameras which are manufactured by our OEM suppliers.

## 7. BUSINESS OVERVIEW *(Cont'd)*

For FYE 2019 to 2022, our major customers were PERODUA Group and their approved suppliers.

Since the commencement of our business relationship with PERODUA Group in 1994, we have been working closely with them to develop vehicle audio products and components for every vehicle model that has been launched. In addition, we were also accorded various recognitions by PERODUA Group, which is attributable to our consistent leading performance in the aspects of cost competitiveness, delivery and services as well as product quality. Please refer to Section 7.1.2 for further details on our awards and achievements.

Through this symbiotic relationship, we have established the following business arrangements with PERODUA Group:

### (a) Joint R&D

Having approximately 28 years of business relationship with PERODUA Group and developed technical know-how over the years, we have been discussing, designing and developing solutions together with PERODUA Group for their vehicles. As part of PERODUA's quality and costing process, we have undergone stringent qualification before becoming an approved supplier to them. As such, we are familiar with their specific requirements as well as the quality of the products, and are able to propose modifications of materials selection and develop new vehicle infotainment systems for new vehicle models and for future developments. For example, due to the introduction of new PERODUA vehicle models, we have invested in significant testing and development on various materials selections and engineering solutions to meet the new specifications of those models.

Typically, we engage in joint R&D projects and studies on new product technologies and features with PERODUA Group and DMC. In this respect, we create value by applying our R&D and engineering expertise to support PERODUA Group in realising their desired product features in new vehicle models.

We undertake joint R&D with PERODUA Group and DMC to verify and develop feasible conceptual designs and turn them into approved engineering samples and/or deliverable finished products, including among others, the following:

- Designing the graphical user experience and user interface;
- Designing, validating, testing and fine-tuning engineering solutions;
- Developing customised design of the electronic parts; and
- Depending on the specific requirements of the products, sourcing appropriate semiconductors as well as various components, and delivering the electronics incorporating our engineering solutions and/or design.

These R&D collaborations allow us to shorten our product development cycle, enhance our manufacturing and assembling process, in part by accelerating and improving the overall engineering process. In addition, these constant R&D engagements enable us to propose and provide engineering services to PERODUA Group for new product development cycles that iterate upon the existing product technology.

When our Group develops any products under the joint R&D with PERODUA, the ownership rights for the designs of end products developed under the joint R&D with PERODUA will remain with our Group, and we will be the sole supplier for products of that specific design, whereas the end products themselves for the specific vehicle models belong to PERODUA.

## 7. BUSINESS OVERVIEW *(Cont'd)*

### (b) Invitation to tender

PERODUA Group will invite a closed list of approved suppliers to submit tender proposals for the supply of vehicle electronics prior to the launch of a particular vehicle. Such request-for-quotations will include the technical specifications required for the parts to be supplied.

Upon successful tender, we will be selected as a supplier via a letter of award or letter of appointment. Our customers will then place orders with us for mass production via an online procurement system that indicates the specific models and units of products required. Our customers will also share their production planning schedule with us to facilitate our procurement planning in determining the timeframe for purchases of input materials for our manufacturing process. This will facilitate our production planning and scheduling of delivery of finished products to our customers.

## 7.6 PRINCIPAL PLACE OF BUSINESS AND OPERATING FACILITIES

### 7.6.1 Operating facilities

Details of our Group's headquarter and operational facilities are as follows:

| Location of facilities | Main function | Approximate built-up area |
|---|---|---|
| **Rawang Factory**<br>Lot 137, Lingkaran Taman Industri Integrasi Rawang 2, Taman Industri Integrasi Rawang, 48000 Rawang, Selangor | Headquarter and factory premises | 7,823 sq m |

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## 7. BUSINESS OVERVIEW *(Cont'd)*

### 7.6.2 Operating capacities and output

As at LPD, our manufacturing factory is equipped with 2 SMT lines.

Our annual capacity, actual production volumes and utilisation rates for FYE 2019 to 2022 and are set out below:

| | FYE 2019 | | | FYE 2020 | | | FYE 2021 | | |
|---|---|---|---|---|---|---|---|---|---|
| | [(2)]Annual production capacity | Annual production | Utilisation rate | [(2)]Annual production capacity | Annual production | Utilisation rate | [(2)]Annual production capacity | Annual production | Utilisation rate |
| | units | units | % | units | units | % | units | units | % |
| **SMT line** | | | | | | | | | |
| • PCBAs | 1,048,709 | 838,967 | 80.0 | 1,096,645 | 710,702 | [(3)]64.8 | 2,006,850 | 587,606 | [(4)]29.3 |
| **Assembly line** | | | | | | | | | |
| • Finished products[(1)] | 1,096,332 | 868,538 | 79.2 | 1,096,332 | 842,005 | 76.8 | 1,098,384 | 647,558 | 59.0 |

| | FYE 2022 | | |
|---|---|---|---|
| | [(2)]Annual production capacity | Annual production | Utilisation rate |
| | units | units | % |
| **SMT line** | | | |
| • PCBAs | 1,530,558 | 595,923 | [(5)]38.9 |
| **Assembly line** | | | |
| • Finished products[(1)] | 1,098,384 | 645,480 | 58.8 |

## 7. BUSINESS OVERVIEW *(Cont'd)*

**Notes:**

(1) Finished products comprise fully assembled audio units, air conditioning controllers, mirror switches, power sockets, USB chargers, reverse cameras, gear lenses and roof monitors.

(2) Annual production capacity is based on a single 8 hours shift, operating 5 days a week, 22 days a month, 12 months a year and excluding gazetted public holidays in FYE 2019 to 2022.

(3) During FYE 2020, our utilisation rate for SMT line and assembly line decreased due to the temporary suspension of business operations during MCO 1.0 from 18 March 2020 to 31 May 2020. During this period, we ceased all business and production activities in compliance with the full lockdown directive from the Government. After resuming operations, we gradually increased production towards our normal utilisation based on our customers' production plan, which also normalised gradually over time.

(4) During FYE 2021, our utilisation rate for SMT line and assembly line decreased due to the:

(a) temporary suspension of business operations during the tail end of MCO 1.0 from 1 April 2020 to 10 May 2020. We resumed operations on 11 May 2020 with 100% workforce capacity;
(b) renovation of Rawang Factory to increase the efficiency of our production workfloor space by improving the layout of our production areas as well as supporting departments. During this renovation, we relocated and operated from 6 units of rented light industrial lots located in close proximity to Rawang Factory; and
(c) addition of 1 SMT line to support the production of PCBAs upon relocation of operations back to the renovated Rawang Factory.

(5) During FYE 2022, our utilisation rate for SMT line and assembly line increased despite the imposition of manufacturing workforce capacity of 10% from 16 April 2021 to 21 May 2021 under MCO 3.0 and temporary suspension of business operations during NRP Phase 1 from 1 June 2021 to 17 August 2021. We resumed operations on 18 August 2021 with 40% workforce capacity and subsequently 80% workforce capacity on 27 August 2021. After resuming operations, we gradually increased production towards our normal utilisation based on our customers' production plan, which also normalised gradually over time.

## 7. BUSINESS OVERVIEW *(Cont'd)*

### 7.7 PRINCIPAL MARKETS

All of our revenue is generated in Malaysia, which is our principal market. The breakdown of our revenue by product category for FYE 2019 to 2022 are as follows:

| | FYE 2019 | | FYE 2020 | | FYE 2021 | | FYE 2022 | |
|---|---|---|---|---|---|---|---|---|
| **Product category** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| Vehicle audio and visual products [(1)] | 99,377 | 78.5 | 101,641 | 77.7 | 103,295 | 79.5 | 107,196 | 80.5 |
| Vehicle accessories [(2)] | 27,165 | 21.5 | 29,091 | 22.3 | 26,574 | 20.5 | 25,855 | 19.5 |
| | **126,542** | **100.0** | **130,732** | **100.0** | **129,869** | **100.0** | **133,051** | **100.0** |

**Notes:**

(1) Comprise vehicle infotainment systems, audio video accessories and reverse cameras.

(2) Comprise air conditioning control panels, mirror switches, USB chargers, power sockets and others.

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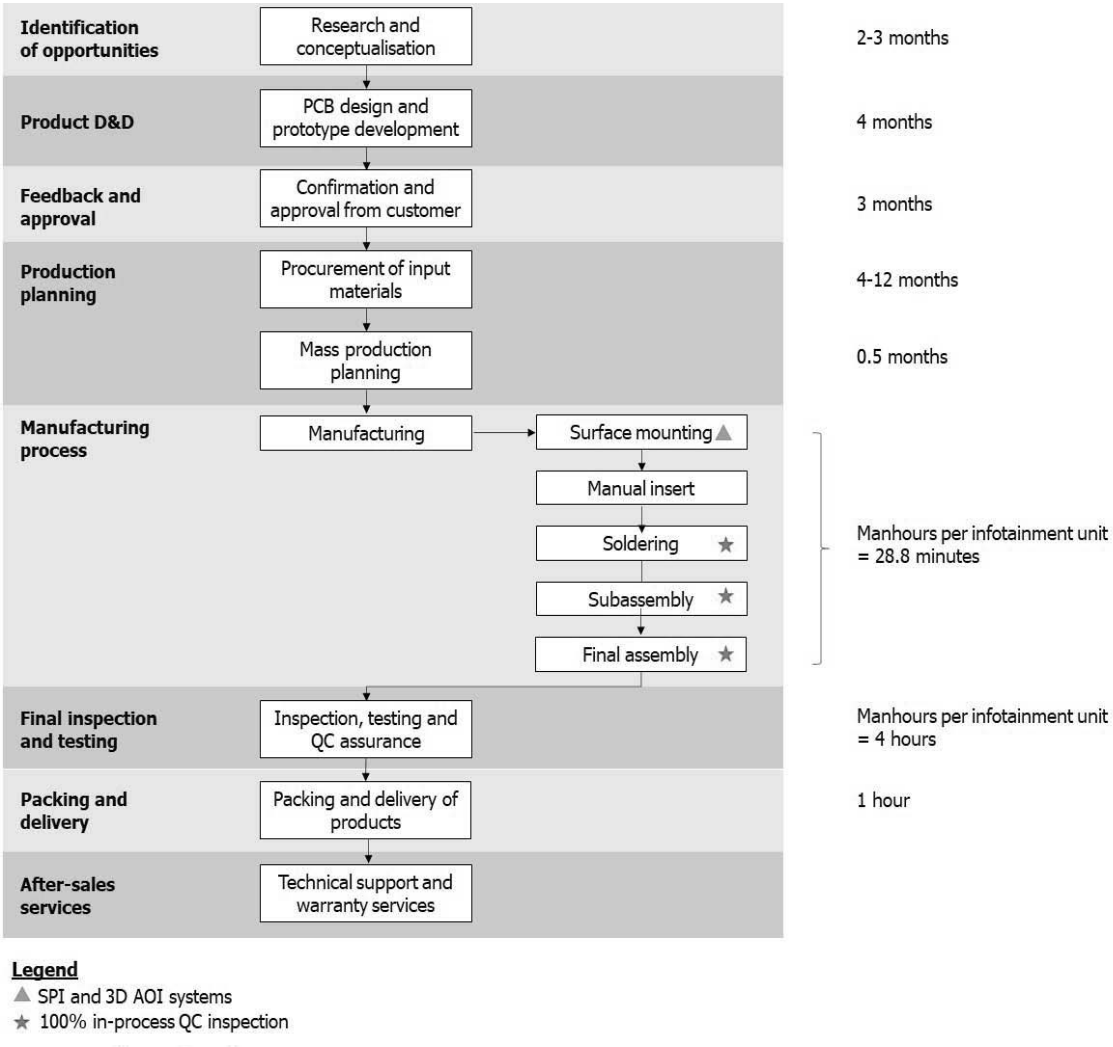
## 7. BUSINESS OVERVIEW *(Cont'd)*

### 7.8 DESCRIPTION OF OUR BUSINESS

#### 7.8.1 Our business process flow




**Identification of opportunities**

At the outset, a business opportunity commences with either us approaching our customers with the designs and improvements that we could offer to our customers' products, or our customers approaching us for the development of a new product.

Based on our understanding of the industry trends, we are committed to adopt the latest technology to be applied in the next generation of products that we manufacture. We analyse the market to develop new solution ideas and product concepts. In these instances, we proactively reach out to customers with solution ideas which we believe have market potential.

Our customers also approach us during the automotive product development stage to initiate discussions on automotive electronics that we can provide to support the launch of specific vehicle models. In such instances, our customers invite us to participate in closed-tenders for the supply of vehicle parts prior to the launch of a particular model. Typically, our customers will select suppliers who have undergone an internal process of evaluation and approval, and that are permitted to participate in such closed-tenders.

## 7. BUSINESS OVERVIEW *(Cont'd)*

We collaborate with our suppliers and customers during the initial conceptualisation, where our R&D team collects information from customers on desired product requirements, specifications and functions. Depending on the types of products, our R&D team will prepare the schematics, engineering designs as well as drawings for the products and identify suitable materials and components to be used.

**Product D&D**

We will proceed to create the electronics and mechanical designs to meet our customers' product requirements. We utilise our technological know-how and our engineering expertise to design the architecture of the circuitry and link the various ICs on the PCBs, and where applicable, develop the relevant software and design the functional prototype of the electronic component. We also design the corresponding plastics and metal components that house and support the functionality of our product designs. We may collaborate with third-party consultants, where necessary.

We believe that our knowledge and close business relationship with our suppliers and customers would facilitate us in selecting the most appropriate components for our customers, both in terms of price, function and availability. In the course of conceptualising and developing product designs to suit the needs of our customers, we will also provide appropriate feedback to our suppliers and may suggest incorporating or modifying certain technical specifications and functions that we consider suitable for the products. During this stage, we will modify and fine-tune our designs to meet customers' specific requirements.

**Feedback and approval**

Once the engineering drawings and supporting documents have been developed, we will present them to our customers to obtain their feedback and approval. Upon receipt of such approval, our R&D team will develop engineering samples for functionality and performance testing as well as visual inspection, in accordance to our internal quality standards as well as predetermined testing standards of our customers. Our engineering samples are designed for manufacturability based on material availability, manpower and process requirements.

We will perform low volume and high volume trial manufacturing upon receiving approval from our customers on the engineering samples. Thereafter, we will commence mass production.

**Production planning**

Our operation flow of manufacturing is carefully planned with the aim to increase efficiency. At pre-manufacturing stage, manufacturing arrangements such as production scheduling and procurement planning will be arranged and coordinated upon receiving customers' order confirmations.

Our procurement team and R&D team ensure that the input materials would satisfy our customers' quality standards before procurement. Our procurement team also works with our manufacturing team to procure input materials and arrange delivery to our manufacturing facility. These incoming input materials are inspected on sampling basis before acceptance.

Please refer to Section 7.13 for further details on our QC process on incoming input materials.

## 7. BUSINESS OVERVIEW *(Cont'd)*

**Manufacturing process**

- **SMT mounting**

The general process of SMT comprises the following:

(a) Loading and transporting – Materials such as PCBs and electronic components are loaded and transported by PCB loaders.

(b) Laser marking – PCBs go through the laser marking machine for bar code traceability marking.

(c) PCB cleaning – PCBs then proceed through the PCB cleaning machine to remove dust and dirt.

(d) Solder paste printing – Solder paste is applied onto the PCBs by the solder paste printer using a stencil on the PCBs.

(e) SPI system – The PCBs are then inspected by our SPI machines for defects, such as ensuring the position, alignment and the right amount of solder paste is accurately deposited on the PCBs.

These SPI machines have the ability to quickly and accurately inspect each solder paste alignment and volume on the PCBs during the printing process, and we will be notified to provide immediate corrective actions in order to bring the printing process back into control.

(f) Components and IC mounting – The automated mounters will pick up semiconductors, electronic components and parts such as ICs, connectors, capacitors, LEDs, inductors, transistors, and place them on the PCBs with high precision and accuracy.

(g) Reflow soldering – After mounting, the PCBAs are transferred by conveyor belt to pass through a reflow oven for soldering the components. In the reflow oven, the solder paste is melted to keep the semiconductor, electronic components and parts in place, and the molten solder paste is then cooled to solidify the solder joints on the PCBs. Our reflow ovens have multiple heating zones with cooling fan system to provide temperature control according to the required temperature curve.

(h) 3-D AOI system – The PCBAs are passed through 3-D AOI machines, which use uses high speed cameras to scan and capture images of completed PCBAs to check for defects, scratches, stains, accuracy of component placement, precision of solder joints, missing components and alignment of components.

Our SMT lines are equipped with inline inspection systems namely SPI system and 3-D AOI system, to check for abnormalities or defects to avoid malfunction of the circuit.

- **Manual insert**

Generally, components that come in non-standard packaging format or in loose forms (i.e. not individually vacuumed packaged) such as connectors, capacitors and USB metal housings will be manually inserted before passing through our wave soldering machine.

## 7. BUSINESS OVERVIEW *(Cont'd)*

- **Soldering**

  The general process of soldering on PCBAs comprises the following:

  (a) Wave soldering – The bottom surface of PCBAs come into contact with the upwelling waves of molten solder produced by a pump. When the PCBs make contact with the molten solder waves, the exposed metal surfaces of the components become soldered onto the PCBs to produce PCBAs.

  (b) Manual soldering – Some PCB designs may include electronic components and parts that are not suitable for SMT process or wave soldering. Therefore, these electronic components will be manually soldered on the PCBAs. Typically, larger components such as processing modules are not suitable to be inserted and handled by the SMT process or wave soldering and will go through a manual soldering process.

  (c) QC inspection – After soldering, our production employees will manually perform visual inspection on the PCBAs using digital microscopes.

- **Subassembly**

  The general process of subassembly of products comprises the following:

  (a) Button laser marking – The plastic housings of the products will be passed through laser marking machines to mark characters, logos and other graphics on the buttons or knobs.

  (b) Subassembly of products – Electronic components and non-electronics parts are assembled to become subassemblies that comprises a PCBA together with other electronic, mechanical, metal and non-metal parts for incorporation into subassemblies or finished products.

  (c) QC inspection and testing – The in-circuit QC inspection is performed on all subassemblies by our production employees with the help of customised testing jigs and equipment to ensure that the quality of the products are in good working condition according to the specifications before proceeding to final assembly.

- **Final assembly**

  The general process of final assembly comprises the following:

  (a) Box build – The LCDs, wires, cables, adapters and subassemblies will be assembled together with the completed PCBA within an enclosure or plastic housing.

  (b) System build – The box build products and subassemblies are integrated into a complete system such as our vehicle infotainment systems. The system build assembly includes the integration of system through routing of cabling, wire harness and software configuration.

  (c) QC inspection and testing – The in-circuit QC inspection is performed on all finished products by our production employees with the help of customised testing jigs and equipment to ensure consistent product quality.

## 7. BUSINESS OVERVIEW *(Cont'd)*

### Final inspection and testing

After final assembly, the overall quality of the finished product will be checked and inspected by our QC team to ensure that the finished products conform to the required standards and specifications before packing and delivery to our customers. During this stage, our QC team will conduct random inspection on the physical appearance, compliance to our customers' specifications and functional testing on the quality of the finished products on each batch of products to ensure consistency of product quality throughout our production process.

Please refer to Section 7.13 for further details on our QA and QC on finished products.

### Packing and delivery

Upon completion of quality control procedures, our products will be labelled, stored and packed in our warehouse before dispatching to the designated places of our customers. Finished goods deliveries are undertaken 24 hours a day. Our customers generally arrange transportation of products. We may engage third party logistics service providers to deliver the products to the destination specified by our customers upon their request.

### After-sales services

From our experience, the vast majority of issues with the products are usually discovered within the manufacturing stage as well as inspection and testing stage. As part of our commitment to provide quality customer service, we are ready to provide technical support and troubleshooting services to assist in resolving our customers' problems, which include maintenance and repair services.

We generally offer a warranty up to 3 years or mileage of 100,000 km of the relevant vehicle, whichever comes first from the date of delivery of our products in respect of the quality standards specified, as required by PERODUA. During the warranty period, our Group will assess the issue and allow the replacement of products due to component failure. These issues will be shared with our R&D, manufacturing, production engineering, QA and QC teams. We endeavour to resolve our customers' issues promptly and efficiently.

Our business development team also frequently communicates with our customers to collect their feedback on the quality, preferences, improvements and market demands of our products. They will also share this information with our R&D, manufacturing, production engineering, QA and QC teams in order to improve and enhance our existing products and services.

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## 7. BUSINESS OVERVIEW *(Cont'd)*

### 7.9 TECHNOLOGY USED AND TO BE USED

As an EMS provider for the automotive industry, we primarily use the following technologies in our manufacturing operations:

**(a) SMT mounting**

Our Group utilises SMT in our manufacturing process. SMT is a method of populating electronic circuit boards in which the components are mounted directly onto the surface of the PCBs. SMT uses flat pads on the surface of a board combined with components designed such that their connecting leads can be soldered onto the pads. This technology has replaced the conventional method, through-hole technology where components had leads which passed through the board and which were soldered on the opposite side of the component body. The main advantages of SMT over the through-hole technology are:

- Enables smaller PCB design by allowing more components to be placed closer together on the board;
- SMT enables higher circuit speeds since PCBs created with SMT process are more compact;
- Components can be placed on both sides of the circuit board along with higher component density with more connections possible per component;
- SMT production process is faster when compared to through-hole technology as surface mount lends itself to automated assembly; and
- SMT method ensures consistency of quality in our PCBAs and products while minimising human errors in our production process.

**(b) Design software**

- **Styling design software**

  Autodesk 3-D Studio – A professional 3-D computer graphics programme used to assist us in the creation, modification and optimisation of a design. We use Autodesk 3-D Studio design software to create 3-D images and animations for the graphical user interface of our products.

  Adobe Photoshop and Adobe Illustrator – used to design images for the graphical user interface.

- **Mechanical design software**

  Catia – A multi-platform software suite for computer-aided design ("**CAD**") to produce detailed mechanical drawings of products. We utilise Catia design software to support multiple stages of product development from conceptualisation, design and engineering to manufacturing. It is also used to facilitate collaborative engineering across various aspects including surface and shape design and mechanical engineering.

## 7. BUSINESS OVERVIEW *(Cont'd)*

SolidWorks – A CAD software to create drawings of parts and assembly modelling. We utilise SolidWorks design software to produce the fundamental design deliverables, such as creating parts and assemblies using its interface that provide simplicity in the design and development process. Further, we also use SolidWorks design software to perform interference checks to verify that the subassemblies, electronic components and parts can be assembled properly and accurately before going into production.

- **Electronics design software**

  Protel – A PCB and electronic design and simulation software used to design electronic circuit schematics. We use Protel design software mainly for 2 functional areas, namely schematic capture and 3-D PCB design. This Protel design software is used by our design engineers to design circuit layouts for PCBs.

### 7.10 INTERRUPTIONS TO BUSINESS AND OPERATIONS

Save for the interruption in our operations arising from the declaration of the movement restrictions in Malaysia following the outbreak of COVID-19, our Group has not experienced any interruption which has significantly affected our business during the past 12 months preceding LPD.

#### 7.10.1 Impact of COVID-19 on our Group

The World Health Organisation declared COVID-19 a pandemic on 11 March 2020. Due to the outbreak of COVID-19, the Government implemented the MCO as part of the efforts to curb the spread in the country. The different periods of MCO and effects to our Group are summarised as follows:

| Events | Description |
|---|---|
| **2020** | |
| **MCO 1.0** | • Implemented from 18 March 2020 to 3 May 2020.<br>• Our employees were required to work remotely from home, except for 10% workforce capacity at our manufacturing facility.<br>• Our production activities were temporary halted for approximately 7 weeks between 18 March 2020 and 10 May 2020.<br>• On 11 May 2020, we resumed our business operations after obtaining approval from MITI and complying with the SOP as well as other rules and guidelines stipulated by MITI.<br>• Our manufacturing side was operating at 10% capacity while office staff worked from home. |
| **CMCO** | • Implemented from 4 May 2020 to 9 June 2020.<br>• Certain restrictions previously gazetted under the MCO 1.0 period were gradually eased and many economic sectors were allowed to resume operations following specific guidelines and SOP. |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| Events | Description |
|---|---|
| | • We resumed manufacturing activities on 11 May 2020 with workforce capacity of 100% for both of our manufacturing and office staff. |
| **RMCO** | • Implemented from 10 June 2020 and following subsequent extensions, ended on 31 March 2021. |
| | • All economic sectors were allowed to resume operations so long as they follow the specified guidelines and SOP. |
| | • The imposition of the RMCO did not materially impact our operations as we had secured exemption from MITI to operate as usual with observations of SOP at our manufacturing facility. |
| **2021** | |
| **MCO 2.0** | • Implemented from 16 April 2021 to 31 May 2021, during which MCO restrictions were re-introduced to selected localities of Johor, Kelantan, Melaka, Sabah, Selangor, Sarawak, Kuala Lumpur, Labuan and Putrajaya, whilst other states and territories were placed under CMCO or RMCO restrictions. |
| | • During this period, all economic sectors were allowed to operate. |
| | • The imposition of MCO 2.0 did not materially impact our operations as we had secured exemption from MITI to operate as usual with observations of SOP at our manufacturing facility. |
| **MCO 3.0** | • Implemented from 12 May 2021 to 7 June 2021 as the nation faced rising COVID-19 infections. |
| | • The imposition of MCO 3.0 did not materially impact our operations as we had secured exemption from MITI to operate as usual with observations of SOP at our manufacturing facility, until 31 May 2021, after which our operations were suspended, as explained in NRP Phase 1 below. |
| **NRP** | • The Government announced the NRP, a four-phase recovery plan for Malaysia to return to normalcy by the end of 2021. |
| **NRP Phase 1** | • Phase 1 of NRP commenced from 1 June 2021. |
| | • All sectors are not allowed to operate except for those in the essential economic and service sectors. Restrictions on the movement of people in Malaysia still remained. |
| | • On 1 July 2021, the Government announced that various areas in Selangor and Kuala Lumpur will be placed under EMCO for 2 weeks, beginning 3 July 2021 to 16 July 2021. |
| | • Our manufacturing activities were suspended for approximately 10 weeks beginning from 1 June 2021 to 17 August 2021. |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| Events | Description |
|---|---|
| | • We received MITI approval on 16 August 2021 for 40% workforce capacity for our manufacturing operations (after achieving 40% vaccination rate among staff and factory employees). Thus, we resumed our business operations on 18 August 2021 with 40% workforce capacity in accordance with the SOP imposed by the Government. Our office staff work from home.<br><br>• We received MITI approval on 27 August 2021 for 80% workforce capacity for our manufacturing operations (after achieving 60% fully vaccinated rate of staff and factory workforce). Our office staff work from home. |
| **NRP Phase 2** | • Kuala Lumpur, Selangor and Putrajaya transitioned into Phase 2 of NRP on 10 September 2021.<br><br>• Our operations were uninterrupted, at 80% workforce capacity for our manufacturing operations, in accordance with SOP imposed by the Government. Our office staff work from home. |
| **NRP Phase 3** | • Kuala Lumpur, Selangor, Putrajaya and Melaka entered into Phase 3 of NRP on 1 October 2021.<br><br>• Our operations were uninterrupted, at 80% workforce capacity, in accordance with SOP imposed by the Government. |
| **NRP Phase 4** | • Klang Valley and Melaka transitioned into Phase 4 of NRP on 18 October 2021.<br><br>• Our operations were uninterrupted, at 100% workforce capacity for both manufacturing and office staff, in accordance with SOP imposed by the Government. |

Our Group did not receive any purchase orders during the periods where our manufacturing activities were halted. However, some of our customers deferred their purchase orders and rescheduled delivery dates in line with their suspension of operations in the automotive sector.

Nonetheless, we did not experience any cancellation in purchase orders during the MCO periods above.

### 7.10.2 Impact of COVID-19 and MCO on our supply chain

The main input materials for our manufacturing activities include electronic and mechanical components, metal and plastic parts and components. During NRP Phases 2, 3 and 4, we faced delays between 4 to 6 weeks in obtaining certain materials from our local and foreign suppliers due to global supply and demand imbalance as well as disruptions in global supply chains that led to logistics and transportation delays in raw material delivery schedules.

We notified our customers about the constraints resulting from the MCO. In order to ensure that we continued to meet the predetermined delivery schedules of our customers, we relied on existing inventories to resume manufacturing operations. We sourced the necessary materials from approved alternative suppliers and maintained a sufficient level of inventories as buffer to ensure undisrupted deliveries. We did not experience any delay in delivery schedules to our customers in this respect.

## 7. BUSINESS OVERVIEW *(Cont'd)*

### 7.10.3 Measures to commence and continue business operations

As part of the requirements to commence operations, we implemented new COVID-19 safety and health SOP, imposed by the Government and relevant authorities. These COVID-19 SOP include the following:

(a) requiring all employees to declare their health conditions and travel history prior to returning to office and factory;

(b) implementation of movement control routing;

(c) ensuring all employees, workers and visitors wear face masks at all times, regularly sanitise their hands and practise physical distancing;

(d) measuring and recording the body temperature of employees, workers and visitors daily;

(e) regular sanitising of office and factory;

(f) staggering of break time and lunch hours to avoid clustering of employees;

(g) requiring all employees and workers to visit nearby hospitals for diagnosis and treatment immediately if they have developed any COVID-19 symptoms and have not recovered after being in quarantine for a specified period;

(h) reminding all employees and workers of the importance of health protection, good hygiene practises and physical distancing;

(i) requiring all employees to perform Antigen Rapid Test weekly; and

(j) from 1 October 2021, requiring all employees, workers and visitors to be fully vaccinated before entering BESB's premises.

We set up a COVID-19 taskforce comprising our Chief Operating Officer and employee representatives to monitor the implementation of COVID-19 safety protocols adopted at Rawang Factory, and promote awareness as well as good hygiene practices among our employees.

Up to LPD, the total costs for the implementation of the abovementioned COVID-19 SOP is approximately RM0.5 million.

### 7.10.4 Impact of COVID-19 on our liquidity, financial position and financial performance

We experienced some disruptions in our business operations as a result of impositions of various phases of MCO since March 2020. Our revenue growth was stable, increasing from RM126.5 million in FYE 2019 to RM133.0 million in FYE 2022. As at LPD, our Group received approximately RM401,400 under the Wage Subsidy Program, which was paid to employees. The Wage Subsidy Program is a financial assistance program introduced by the Government which aims to support employers whose operations have been affected by COVID-19 with continuing operations and retaining employees.

## 7. BUSINESS OVERVIEW *(Cont'd)*

Notwithstanding the short-term impacts of COVID-19 and MCO on our Group's business operations, we currently do not expect any material impact to the sustainability of our business operations in the foreseeable future as:

(a) our business operations resumed to full capacity upon obtaining MITI approval and complying with the SOP and other rules and guidelines imposed by MITI, and upon lifting of the MCO;

(b) we did not experience any cancellation in purchase orders during the lockdown period as it has since been resolved with the resumption of business activities by our suppliers and customers; and

(c) our Group has cash and bank balances of approximately RM19.3 million (excluding RM0.2 million pledged for our banking facilities) and banking facilities of approximately RM69.0 million (of which RM33.7 million has been utilised) as at LPD.

We do not expect any material impacts to our liquidity, financial position and financial performance from the impact of COVID-19 and MCO.

We do not anticipate any financial difficulties in meeting our obligations to sustain our business operations in the near future.

### 7.10.5 COVID-19 incidents in our business premises

As at LPD, we experienced 3 incidents of COVID-19 outbreak which resulted in us temporarily suspending our operations for 2 to 3 days each at Rawang Factory. Such suspensions were initiated by us voluntarily to contain the spread of COVID-19 in our factory.

We will continue to implement stringent SOP as precautionary measures at Rawang Factory.

### 7.10.6 Impact of COVID-19 on our Group under the endemic phase of COVID-19

There is no material impact on our Group under the endemic phase of COVID-19 and we do not expect any material impact on our Group during this period. Notwithstanding, we will continue to implement stringent SOP as precautionary measures to avoid the spread of COVID-19 in our premises.

## 7.11 COMPETITIVE STRENGTHS

### 7.11.1 We provide one-stop EMS solutions to automotive makers

Unlike traditional manufacturers which only focus on certain stages of the production process, we offer automotive makers integrated and comprehensive EMS services. This has enabled us to support the supply chains of our automotive customers by undertaking product D&D, prototyping, board assembly, electronics and mechanical assembly, testing, labelling, packaging and support services.

Over the years, we have gained a reputation as a reliable manufacturer and direct supplier of quality vehicle electronics and accessories to automotive makers. Our end-to-end EMS solutions for automotive makers which has been the foundation of our business growth can be summarised as follows:

## 7. BUSINESS OVERVIEW *(Cont'd)*

- Design development and enhancement – we offer technical advice and engineering support services to our customers during the product development stage to avoid design flaws which would lead to any malfunction of the vehicle electronics and accessories. We are usually responsible for sourcing the required materials for production and would recommend suitable materials to the customers after assessing the product prototype or product design.

- Manufacturing services – our EMS solutions focus on SMT for PCBA supplemented by assembly and related manufacturing activities such as soldering, manual insert, assembly, inspection and testing.

- Customised test development – we have customised testing jigs to inspect our subassembly products and finished products, such as combination of in-circuit tests, board level tests, functional tests, and other special tests and inspections. Our production team has developed expertise in designing jigs for customised tests.

- Supply chain management – our multi-lingual procurement team coordinates with our suppliers on input materials and adopts inventory management to meet our production schedules and fulfilment of customer orders.

- After-sale service and customer support – we have a dedicated customer service team to attend to our customers' enquiries as well as technical personnel to address warranty claims and repair any faulty products.

### 7.11.2 We have developed a long-standing partnership with PERODUA Group

Our business relationship with the PERODUA Group was forged in 1994 when we were first appointed to supply vehicle audio systems for PERODUA's Kancil models. Since 1994, we have supported PERODUA Group for 28 years where we have supplied automotive electronic products for various vehicle models, including the MYVI, ATIVA, ALZA, ARUZ, BEZZA and AXIA models.

Throughout the entire life-cycle of a particular vehicle variant, which typically lasts up to 5 years, we work closely with PERODUA Group and DMC who is a major shareholder of PERODUA to understand the product development needs and requirements. This supports our design and development process where we are able to better meet the product requirements and expectations of PERODUA Group. The evolution of PERODUA vehicle models and designs over the years has also enabled us to continuously enhance the quality as well as features of the products that we manufacture, and allowed us to competitively price existing models of vehicle electronics and accessories.

In this respect, our relationship with PERODUA Group is a interdependent one, based on the following factors:

#### (a) We have an unbroken track record since PERODUA Group's beginning

Our Group has been supplying for every vehicle model of the PERODUA Group since the introduction of its first model, the Kancil, and this track record has remained unbroken to date. Further, our Group is also constantly in discussions and preparing for forthcoming models of PERODUA for up to the next 5 models, including all their variants, where such models are likely to be continuously sold for up to 5 years. Our Group's ability to consistently maintain quality products that are reliable, cost effective and in compliance with the regulatory requirements are highly recognised by PERODUA and this recognition has resulted in our Group being awarded with continuous contracts of products for all their vehicle models and variants, as well as various awards and certifications from PERODUA for the last 28 years.

## 7. BUSINESS OVERVIEW *(Cont'd)*

### (b) A strong symbiotic culture is ingrained in our relationship with PERODUA

We have developed a strong symbiotic relationship with PERODUA throughout our history with them. We frequently collaborate in joint R&D projects and studies with PERODUA and DMC to develop new technologies and features for new automobile models. To this end, we have products slated for developments up to 2025. Additionally, PERODUA practises a culture of developing its key suppliers. Throughout our relationship with PERODUA, we have been consistently participating in several of its vendor development programmes in Malaysia as well as Japan.

Further, we are also recognised as a key R&D partner for PERODUA by DMC, and work closely with their engineers. Our R&D and product development of audio systems since 1994 has evolved in line with the evolution of PERODUA's vehicle models. Over the years, we have developed new and improved automotive electronics for PERODUA as our audio systems evolved from multimedia players to infotainment systems with features such as touchscreen multimedia, GPS, Android SmartLink and HDMI for installation in vehicle models launched by PERODUA. In 2022, we launched our vehicle infotainment system with upgraded technology platform for enhanced smartphone connectivity for PERODUA vehicles. Our product prototypes are tested by PERODUA and DMC's engineers prior to acceptance for mass production.

The ownership rights for the designs of end products developed under the joint R&D with PERODUA will remain with our Group, and our Group will be the sole supplier for products of that specific design, whereas the end products themselves for the specific vehicle models belong to PERODUA. In this regard, we are the sole supplier of the vehicle infotainment systems and other key components designed by us, to a majority of the PERODUA vehicles. The vehicle infotainment system is a key component that differentiates between the high range, mid-range and low range vehicle variants launched by PERODUA, as the different vehicle variants carry vehicle infotainment system with different features. Further, we collaborate closely with PERODUA on the next generation products of automotive electronics.

Our position as the sole supplier of vehicle infotainment systems designed by us for majority of the PERODUA vehicle attests to our position as a key R&D partner for PERODUA.

Additionally, we have been invited by PERODUA and DMC to participate in the Malaysian Suppliers Exhibition at DMC, Osaka, for 3 consecutive years since 2017. This has cemented our position as a key supplier of PERODUA for its future product cycles that iterate upon the existing product technology platforms.

### (c) We are a key PERODUA supplier with long staying power

We are a key supplier of infotainment and electronic accessories to PERODUA. Specifically, we are the sole supplier of key components designed by us for PERODUA vehicles, being mainly the vehicle infotainment systems. For certain models and/or variants, PERODUA may also engage other suppliers to supply the said components designed by the other suppliers. However, in such cases, we are still the majority supplier for the PERODUA model and/or variant. Our position as a key supplier of vehicle infotainment systems to PERODUA is further evidenced by the following:

In 2021, Betamek supplied 120,335 vehicle infotainment systems to the PERODUA range of passenger vehicles. Further in 2021, a total of 190,291 units of PERODUA vehicles were sold in Malaysia. Thus, in this respect, Betamek supplied to 63.2% of the volume of PERODUA vehicles sold in Malaysia in 2021.

*(Source: IMR Report by PROVIDENCE)*

## 7. BUSINESS OVERVIEW *(Cont'd)*

Our products have long staying power, as they are highly customised to suit PERODUA requirements, so they are more likely to be continually used in several variants of a vehicle model. This makes our products easy to be carried over with revisions and improvements into new product cycles that continue with existing product technology platforms.

For example, the face-lift models for MYVI, AXIA, ALZA, BEZZA, ATIVA and ARUZ will often carry-over parts and technologies from the previous versions. As a result, our technology platforms have the potential lifespan of up to 15 years after the introduction of the first model.

### (d) PERODUA and our Group have heavily invested in training and joint R&D, which makes us difficult to replace

Our long-standing relationship with PERODUA has seen heavy investments of time, efforts, training and joint R&D over the years. With this relationship, we believe that we are able to maintain our business relationships with all our major customers (comprising PERODUA Group or their approved suppliers) moving forward. To this extent, we work closely with our major customers to ensure customer satisfaction, and also participate in business meetings with them to understand their requirements and products roadmap. The loss of our Group to PERODUA will require a suitable replacement that is familiar with PERODUA's needs in terms of capabilities, timing, delivery and service.

Our Group incurred the following costs for R&D undertaken jointly with PERODUA for FYE 2019 to 2022:

| | R&D |
|---|---|
| | RM'000 |
| **FYE 2019** | - |
| **FYE 2020** | 0.9 |
| **FYE 2021** | 4.6 |
| **FYE 2022** | 0.5 |

The trainings undertaken jointly with PERODUA for FYE 2019 to 2022 were sponsored by PERODUA.

### (e) Stringent qualification process and quality standards

We also periodically undergo a stringent and time-consuming qualification process to be PERODUA's supplier. Prior to being appointed as a supplier to PERODUA, and as part of PERODUA's quality control and costing process, we have undergone stringent qualification before becoming their approved supplier, where our R&D, engineering, manufacturing and quality assurance capabilities were assessed. This qualification process also assessed the experience and expertise of our management, engineering and production teams, in addition to our financial position. Subsequent to the initial qualification process, our Group also undergoes readiness audits prior to the commencement of mass production for each new product that we are appointed to produce for PERODUA. This readiness audit is carried out by PERODUA to assess our manufacturing readiness level. This allows us to participate in tenders for the development of new vehicle electronics and accessories to complement new automobile models.

## 7. BUSINESS OVERVIEW *(Cont'd)*

Our production system, quality control and assurance processes were developed over the years based on PERODUA and DMC standards. Our products, also comply with DMC standards, and are tested at DMC in Japan before mass production for PERODUA Group. Our performance has also consistently garnered us awards as PERODUA's best supplier in various aspects, serving as a testament to our capabilities. Please refer to Section 7.1.2 for further details of these awards.

As part of the joint R&D together with PERODUA, PERODUA will perform factory visits on our Rawang Factory to assess our production readiness in the months leading up to mass production for every new vehicle model. We typically have 2 to 3 factory visits prior to the mass production of each new vehicle model, and we typically have 2 to 3 new vehicle models annually. Throughout the course of the joint R&D, we also schedule several business meetings with PERODUA which we host at our Rawang Factory. Further as a PERODUA supplier, we also benefit from trainings carried out by PERODUA at our Rawang Factory, as and when such trainings are scheduled. We also receive visits from the senior management of PERODUA which may be scheduled once annually or biannually.

We believe that our long standing relationship with PERODUA Group is evidence of our ability to consistently meet PERODUA Group's expectations, standards and requirements in terms of product quality, cost considerations and timeliness of delivery. This, in turn, has provided opportunities for us to engage in new product developments for their new vehicle models. We will continue to focus on enhancing our EMS capabilities to continue nurturing our relationship with the PERODUA Group as it will enable us to continually secure orders and provide a launching pad for expansion into new markets in the future.

### 7.11.3 We have strong in-house R&D capabilities

The automotive electronics industry is fast-paced, and products are constantly being phased out and replaced either by newer models or newer technology. In order to remain competitive, we strive to provide our customers with timely and technically sophisticated automotive electronic products.

To stay on the pulse of the market and to keep abreast of the latest trends, we adopt a market-oriented approach with a responsive product development strategy. We regularly meet with our customers to keep abreast of latest market demands, and we also hold discussions regularly with our technology partners and suppliers to keep apprised of the latest technology in the market. We believe that working closely and side-by-side with our customers, technology partners and suppliers will enable us to anticipate market trends, leading to the mutual growth and benefit of our customers, technology partners, suppliers and our Group. By engaging technology partners, we are able to gain access to technologies that they possess which are robust, proven and ready to market. We are able to leverage on these technologies to develop customised applications for automotive electronics in a cost effective and timely manner.

Our R&D functions are carried out as a group effort in close collaboration between different teams such as business development, procurement, and production teams. As at LPD, our in-house R&D team consists of 15 employees. Our R&D department is led by our Senior Manager and Head of R&D, Tan Meng Han, who has 26 years of relevant industry experience. We believe that our R&D team plays an important role in bridging the functionality between our suppliers' technology, materials and our customers' end product requirements. For illustration, our R&D team works closely with our business development team to understand the specific requirements of our customer and leveraging on our knowledge on our suppliers' materials as well as their latest technologies on vehicle electronics and accessories.

## 7. BUSINESS OVERVIEW *(Cont'd)*

We will continue to maintain close-knit relationships with our customers, technology partners and suppliers to anticipate any future trends and cycles in the market. We believe that we are able to capitalise on such market intelligence and assist our customers in determining a particular product which we believe brings value to them.

Our R&D cost amounted to RM1.0 million comprising staff costs, RM2.0 million comprising staff costs and Smart Device Link Over USB Phase 1 development cost, RM5.7 million comprising staff costs and Smart Device Link Over USB Phases 1 and 2 development costs and RM1.7 million comprising staff costs and Daihatsu New Global Architecture (DNGA) project development cost for FYE 2019, FYE 2020, FYE 2021 and FYE 2022, respectively.

The Smart Device Link Over USB is a platform that connects in-vehicle infotainment systems to smartphone applications. It allows automakers to provide integrated connected experiences, thereby enhancing user experience throughout the vehicle using features such as video streaming, voice integration, and real time vehicle data. Further, it gives drivers control over the flow of their data between the vehicle and connected applications.

DNGA was introduced in 2019 by DMC and is a modular automobile platform that underpins various Daihatsu vehicles and their rebadged versions supplied to other automakers, including PERODUA. The DNGA platform is developed with a focus on electrification, autonomous driving and connectivity. The DNGA modular platform allows for parts sharing, shortening development time of new models, and thereby also reducing the cost incurred in developing and launching new models. Such cost savings can be used to add more features to a car, such as visual and control, safety, entertainment and connectivity as well as IoT.

Our dedication to and investments in R&D have led to the development of new products, and positions our Group as one of the key players in the automotive electronics industry.

### 7.11.4 We have an experienced key senior management team

Since the commencement of our business, we have been led by an experienced and technically strong key senior management team who have contributed to the growth of our business. Collectively, our key senior management personnel have exposure across a broad spectrum of business activities, including engineering, operations, sales and marketing and finance. Some of our key senior management personnel are technically experienced as they are qualified and professionally-trained engineers, and have gained knowledge in the automotive industry.

Our key senior management team, led by our Managing Director who has 32 years of experience in management and strategic leadership, comprises the following:

| Name | Designation | Years of relevant working experience |
|---|---|---|
| Mirzan Bin Mahathir | Managing Director | 32 |
| Muhammad Fauzi Bin Abd Ghani | Executive Director | 37 |
| Megat Iskandar Hashim Bin Ismail | Chief Operating Officer | 26 |
| Nor' Azrin Bin Nusi | Chief Financial Officer | 26 |
| Tay Yoke Theng | General Manager and Head of Procurement and Administration | 32 |
| Soon Kian Yoon | Deputy General Manager and Head of Manufacturing | 33 |
| Tan Meng Han | Senior Manager and Head of R&D | 28 |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| Name | Designation | Years of relevant working experience |
|---|---|---|
| Yap Suh Choong | Senior Manager and Head of Production | 32 |

Under the leadership of our key senior management team, we have built a business with proven track record of success. For further information on our Directors and key senior management team, please refer to Sections 5.1.2, 5.2.2 and 5.3.3.

### 7.11.5 We are committed to stringent quality control

We believe that high product quality is crucial to our business in upholding our reputation and competitive position in the industry. Therefore, we place a strong emphasis on maintaining our product quality. Our Group has obtained the Quality Management System ISO Certification with continued renewals since 1996. We are also accredited with Quality Management System IATF 16949:2016. In addition, we have implemented our stringent quality assurance procedures that have contributed to our growth and success. We have quality inspection at every critical stage of our manufacturing process, from supplier selection, inspection on incoming materials, production process up to delivery. In our SMT lines for PCBAs, we have implemented in-process inspection systems and conduct successive quality checks at every production process. This is to allow us to achieve precision and accuracy as well as minimise the possibility of rejection and return from our customers or possibly end users.

We provide our employees with clear work instructions and guidelines to ensure our quality standards are strictly adhered to. We also ensure a work environment which nurtures quality and encourages cross-function involvement for continuous quality environment. In addition, our quality control team works closely with our production personnel to ensure that the existing production flow and method achieves the required standards of quality, and that innovation and improvement are continually introduced to our business process to improve quality standards. To reinforce the importance of continual improvement, we promote development programmes for new recruits as well as existing employees in our internal DOJO training centre. New recruits undergo training on soft skills to understand our values and culture followed by technical training before being assigned to their various departments for on-the-job training. We also engage our employees in refresher courses periodically.

As the manufacturing process is primarily carried out at our own factory, we have better control over the quality of products that we produce. By adopting the 4Ms of operations management (being manpower, machinery, materials and method), we are able to achieve better and consistent quality of products. For further details of our quality measures, please refer to Section 7.13.

In addition, it is our practice to attend to our customers' enquiries, address warranty claims and repair any faulty products promptly, should these instances arise.

## 7.12 SEASONAL OR CYCLICAL EFFECTS

Our business is correlated to the production and sales of vehicles. Automotive sales and production are cyclical and dependent on the general economic conditions and other factors, including consumer spending and preferences as well as changes in interest rate levels and consumer confidence. Automotive sales and production in Malaysia are also impacted by government policies, regulations, initiatives and incentives.

## 7. BUSINESS OVERVIEW *(Cont'd)*

### 7.13 QC AND QA

We are committed to achieving customer satisfaction by delivering quality products. As part of our quality measures, we have established QC procedures for adherence by our employees.

Our subsidiary, BESB was certified compliant to IATF 16949:2016, details of which are as follow:

| Year first achieved | Current validity period | Certification | Scope | Awarding body |
|---|---|---|---|---|
| 1996 | 19 August 2021 – 18 August 2024 | IATF 16949:2016 | Design and manufacture of car electronic products (radio, CD, DVD and multimedia player and electronic accessories), and assembly of outer mirror switches, cigarette lighters, power socket and gear lens | SIRIM QAS International Sdn Bhd |

In August 2022, our Group completed the initial audits and are pending issuance of the respective quality certificates for:

| Certification | Scope | Awarding body |
|---|---|---|
| ISO 14001:2015 | Design and manufacture of car electronic products (radio), CD, DVD and multimedia player and electronic accessories; and | Winchester Quality Award Sdn Bhd |
| ISO 45001:2018 | Assembly of outer mirror switches, cigarette lighters, power socket and gear lens | |

Our Group has adopted QC measures on the selection and testing of input materials, subassembly products and finished products throughout the manufacturing process to ensure the quality of our products as well as their adherence to our customers' specifications.

In June 2022, our subsidiary BESB became a participant in the United Nations Global Compact on human rights, labour and anti-corruption, thereby demonstrating our Group's commitment to corporate sustainability.

As at LPD, we have a QC team comprising 71 personnel. Our QC team works closely with our production personnel to ensure that the existing manufacturing process and method achieves the required standards of quality, and that innovation and improvement are continually introduced to our business process to improve quality standards. A supervisor is appointed in each stage of our manufacturing process to carry out QC, as they will examine and gauge the quality and condition of the work-in-progress products. We believe that this QC process will minimise incidents of in-process rejects and defects arising from the various manufacturing processes.

In order to optimise the consistency of product quality, we adopt the 4Ms principles of operations management whereby:

## 7. BUSINESS OVERVIEW *(Cont'd)*

(a) manpower – we ensure our technical personnel have the required expertise and skills to deliver engineering services/solutions to meet our customers' requirements and constantly maintain sufficient manpower resources for our production needs;

(b) machinery – we ensure our existing manufacturing facility has available production capacity and is equipped with the necessary machineries and equipment to manufacture the products based on the engineering samples, and possess the required testing equipment;

(c) material – we ensure the procurement process of input materials are well planned according to our production schedule and ensure strict QC checks are performed on incoming input materials before despatching for production; and

(d) method – we ensure our production employees are guided with our production SOP in safety, QC, product specifications, schedule and planning as well as techniques.

The QC processes that we adopt throughout our manufacturing process is described as follows:

| Stage | QC processes |
|---|---|
| QC on incoming input materials | Incoming input materials are subject to inspection by our QC team based on our internal guidelines to ensure their conformity with the specifications set out in our design and requirements of our customers before acceptance and despatched for production.<br><br>Upon discovery of any defective materials, our QC team will refer the case to our procurement department. Our procurement team will communicate with the relevant suppliers and arrange for the return or replacement of materials. We have adopted a series of strict QC measures in the inspection and checking of incoming materials before we use the same for production, in order to minimise the risks of producing defective products.<br><br>Depending on the types of materials, we perform testing and visual inspection to cover aspects including appearance, size, colour and functional testing. The input materials that pass the incoming quality check will be stored prior to production.<br><br>Although, we have adopted strict QC measures in inspecting the incoming materials, there are occasions that the materials are found to be sub-standard or defective during the production process. If that happens, we will return the defective materials to the relevant suppliers and request for a new batch of raw materials.<br><br>We had not experienced significant return of materials to suppliers which did not pass our incoming QC for FYE 2019 to 2022. |
| In-circuit QC tests | We carry out quality inspection at various stages of our manufacturing process. During mass production, our manufacturing and QC teams perform regular and random checks on work-in-progress products to ensure that their appearance and functionality are in full compliance with our customers' requirements. Apart from visual checking, we also use customised testing jigs designed by our production engineering team, and specialised testing equipment including 3-D AOI machines. |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| Stage | QC processes |
|---|---|
| | Our work-in-progress products are monitored and examined at each stage of the manufacturing process.<br><br>One of our major objectives is to ensure that the overall quality of the semi-finished products conforms to the required standards, by means of testing on all of the work-in progress. The semi-finished products that fail to meet quality standards are subjected to analysis of the root cause. Thereafter, we will determine what corrective actions need to be taken. Our manufacturing employees and QC personnel meet regularly to discuss the root causes of the quality issues and the corresponding countermeasures to improve and ensure the quality of our products.<br><br>All quality assessment results and any identified abnormality during the manufacturing process are recorded and corrective actions will be taken as appropriate. We continue to monitor the effectiveness of the countermeasures taken to avoid re-occurrence of rejects in our manufacturing process. |
| QA on overall quality of finished products | Our finished products are subject to checking and testing to ensure that they comply with product specifications and requirements provided by our customers. Our Group requires QA personnel to conduct inspection on the physical appearance, level of adherence to our customers' specifications and functional testing on the quality of the finished products. These may be done on all products or on a sampling basis, depending on product type.<br><br>Below are the types of functional tests performed on our finished products:<br><br>- Temperature test<br><br>We use a temperature test chamber to perform thermal test on the finished product to ensure that the finished product is able to operate safely and reliably at different temperatures.<br><br>Generally, every new product that is intended for mass manufacturing needs to be reliable at a range of temperatures. In addition, the thermal test is performed to ensure that the PCBA and electronic components are able to withstand thermal shock. The data gathered from the thermal tests allow us to assess its reliability at multiple temperature levels and understand its safe operating limits as well as gain more information about the product's potential lifespan. Our temperature test chambers are able to maintain over the temperature range of 20°C to 125°C, and typically our products are tested up to 80°C according to our customers' requirements. |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| Stage | QC processes |
|---|---|
| | - Button and knob durability test<br><br>We carry out button and knob durability tests for testing the functionality of switches and buttons of our finished products, which are typically made from plastic and metals, and may either be flat or customised to ergonomic specifications. As the switches, buttons and knobs act as the controller of a particular electronic system, the durability test ensures that the switches, buttons and knobs are functioning under different pressure levels placed on the button, knob or actuator. They also test to ensure that these switches, buttons and knobs remain functional with extended use.<br><br>- GPS navigation signal generator test<br><br>The GPS navigation signal test is typically performed on vehicle infotainment systems, where a GPS receiver is embedded in the vehicle navigation system. The signal generator is programmed to simulate the GPS satellites to test the receiving capabilities in vehicle infotainment systems.<br><br>- Bluetooth test<br><br>Bluetooth is integrated in vehicle infotainment systems for seamless connectivity between mobile phones and vehicle infotainment systems. We carry out Bluetooth tests on vehicle infotainment systems to ensure they are fully functional within specifications.<br><br>- Vibration test<br><br>Our finished products are also being tested to an augmented simulation of vehicle vibration patterns and levels under extreme motions. A vibration test machine is used to identify product defects, ensuring the subassemblies and parts inside the finished products are intact under dynamic road conditions as well as to maintain consistent product quality. Further, the vibration test also identifies any possible abnormal or audible mechanical sounds.<br><br>- Radio frequency test<br><br>A radio frequency tester is used to ensure the devices that use wireless communication technologies ranging from low to high frequency band such as radiowaves are not interfering with other frequencies. We use radio frequency test to examine several aspects such as receiving sensitivity, noise and modulation quality. |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| Stage | QC processes |
|---|---|
| | - Finished product/aging test<br><br>Our finished product test aims to surface any abnormalities or defects during usage at our final inspection by way of operating the product over a specified period of time in a high temperature environment. This test ensures our products are durable, reliable and are able meet user requirements.<br><br>The finished products must pass the final quality test on their functionality and simulating the circumstances in which the products will operate. If the finished products are found to be defective, we will pass the defective products to our production department for repair and rectification works if applicable. Please refer to Section 7.3 (c) for further details on the types of functional tests performed on the products.<br><br>After the final inspection, the finished products will be packaged and stored prior to delivery to our customers. |

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## 7. BUSINESS OVERVIEW *(Cont'd)*

### 7.14 TYPES, SOURCES AND AVAILABILITY OF MATERIALS

The following are the major types of input materials that we purchased in FYE 2019 to 2022:

| | FYE 2019[1] | | FYE 2020[1] | | FYE 2021[1] | | FYE 2022[1] | |
|---|---|---|---|---|---|---|---|---|
| | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| **PCBs and semiconductor components** | | | | | | | | |
| ICs | 51,553 | 51.0 | 32,889 | 39.5 | 38,117 | 43.8 | 50,264 | 46.0 |
| PCBs | 2,945 | 2.9 | 2,724 | 3.3 | 3,694 | 4.2 | 4,414 | 4.0 |
| Discrete components | 5,497 | 5.4 | 2,799 | 3.4 | 3,222 | 3.7 | 2,731 | 2.5 |
| **Sub-total** | **59,995** | **59.3** | **38,412** | **46.1** | **45,033** | **51.7** | **57,409** | **52.5** |
| **Other components and related parts** | | | | | | | | |
| LCDs | 11,597 | 11.5 | 16,995 | 20.4 | 16,899 | 19.4 | 24,764 | 22.6 |
| Camera mechanisms | 7,237 | 7.2 | 8,504 | 10.2 | 7,608 | 8.7 | 6,576 | 6.0 |
| Plastics components | 8,067 | 8.0 | 7,275 | 8.7 | 6,401 | 7.4 | 6,576 | 6.3 |
| Electrical connectors | 3,369 | 3.3 | 2,933 | 3.5 | 3,552 | 4.1 | 5,807 | 5.3 |
| Cables and wires | 595 | 0.6 | 1,538 | 1.8 | 1,420 | 1.6 | 3,056 | 2.8 |
| Metal parts | 3,395 | 3.4 | 3,520 | 4.2 | 3,078 | 3.5 | 2,741 | 2.5 |
| Others [2] | 6,839 | 6.8 | 4,104 | 4.9 | 3,076 | 3.5 | 2,238 | 2.0 |
| **Sub-total** | **41,099** | **40.7** | **44,869** | **53.9** | **42,034** | **48.3** | **52,008** | **47.5** |
| **Total** | **101,094** | **100.0** | **83,281** | **100.0** | **87,067** | **100.0** | **109,417** | **100.0** |

**Notes:**

[1] Our Group's local and foreign purchases for FYE 2019 to 2022 are as follow:

| | Local purchases (%) | Foreign purchases (%) |
|---|---|---|
| **FYE 2019** | 28.7 | 71.3 |
| **FYE 2020** | 31.6 | 68.4 |
| **FYE 2021** | 30.2 | 69.8 |
| **FYE 2022** | 25.2 | 74.8 |

[2] Include, among others, solder paste, screws, nuts and bolts.

## 7. BUSINESS OVERVIEW *(Cont'd)*

Our main input material for our manufacturing operations are as follows:

### (a) PCBs and semiconductor components

The purchase of PCBs and semiconductor components accounted for 59.3%, 46.1%, 51.7% and 52.5% of our purchases of input materials for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively.

The PCBs and semiconductor components that we use in our manufacturing operations comprise:

- ICs such as semiconductors;
- PCBs; and
- Discrete components including diodes, transistors, rectifiers, LEDs, resistors, capacitors and inductors.

These input materials are mainly used in our SMT production process, where ICs and discrete components will be mounted onto the PCBs.

### (b) Other components and related parts

The purchase of other components and related parts accounted for 40.7%, 53.9%, 48.3% and 47.5% of our purchases of input materials the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively.

The other components and related parts that we purchase are as follows:

- LCDs mainly used as our input material for the assembly of vehicle infotainment systems such as display screens;
- Electrical connectors such as plugs and sockets;
- Cables and wires as well as wire assemblies;
- Plastics and components mainly used as our input material for the assembly of finished products such as plastic knobs, buttons and enclosures;
- Metal parts mainly used as our input materials for the assembly of finished products such as heatsinks, brackets and enclosures; and
- Camera mechanisms.

These materials are mainly used in our assembly line to produce the finished goods as well as subassembly products.

Our purchases are sourced from local and foreign suppliers from Japan, China, Singapore and Hong Kong. We have developed policies and procedures that guide our selection of suppliers. All selected suppliers are regularly evaluated in terms of pricing, product quality and range and technical specifications, and ability to deliver in a timely manner.

We generally purchase raw materials on a purchase order basis. Some of our input materials are subject to price fluctuations such as ICs and PCBs. Therefore, we maintain sufficient buffer in our budgeted project cost which allows better planning for potential cost overruns that may arise due to increase in prices of materials.

## 7.15 MARKETING AND SALES

Our business development efforts are spearheaded by 2 managers. They are supported by other departments such as procurement and R&D. These efforts are focused on maintaining relationships with our existing customers, initiating new customer relationships and enhancing our brand recognition.

Although our products are mainly supplied for the assembly of PERODUA vehicles, we are actively exploring opportunities to secure new customers. Additionally, we adopt measures to keep up with the current market trends and consumer preferences through interactions with end-users and enhance our automotive electronic products.

We undertake the following marketing and sales strategies:

### (a) Participation in exhibitions and factory visits

We have participated in various exhibitions to showcase our capabilities in manufacturing various vehicle electronics and accessories.

In addition, we were also often invited to visit factories of our affiliates and suppliers to learn their manufacturing practices and adopt improvements in our business operations. This allows us to gain insights into the manufacturing process and understand product changes through constant innovation and development, as well as to promote customer-supplier relationship and gather market intelligence.

The major exhibitions and factory visits that we participated in recent years are as follows:

| Year | Exhibitions / factory visits | Organiser | Location |
|---|---|---|---|
| 2017 | Exhibition at DMC | PERODUA | Japan |
| 2018 | Exhibition at DMC | PERODUA | Japan |
| | Factory visit to Toyota's affiliates and suppliers' factories in India | PERODUA | India |
| | Exhibition showcase at PERODUA Supplier Association Award Gala Night | PERODUA Suppliers Association (P2SA) | Kuala Lumpur, Malaysia |
| 2019 | Business matching visit to Vietnam to promote our EMS solutions | Malaysian External Trade Development Corporation (MATRADE) | Vietnam |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| Year | Exhibitions / factory visits | Organiser | Location |
|---|---|---|---|
| | Exhibition at DMC | PERODUA | Japan |
| | Factory visit to Astra Daihatsu Motor's affiliates and suppliers' factories in Indonesia | PERODUA | Indonesia |
| | Business matching visit to Indonesia to promote our EMS solutions | PERODUA | Indonesia |
| | Exhibition showcase at PERODUA Supplier Association Award Gala Night | PERODUA Suppliers Association (P2SA) | Kuala Lumpur, Malaysia |
| 2020 | Business matching visit to India to promote our EMS solutions | Malaysian Automotive Robotics and IoT Institute, an agency under MITI | India |
| | Lean Production System Development Programme | PERODUA | Negeri Sembilan, Malaysia |
| | MITEC Kuala Lumpur | MITEC | Kuala Lumpur, Malaysia |
| | International Engineering Sourcing Show | Engineering Export Promotion Council, India | India |
| 2021 | Malaysia Export Exhibition Centre | MATRADE | Kuala Lumpur, Malaysia |
| 2022 | EVM Asia '22 | MITEC | Kuala Lumpur, Malaysia |

### (b) Regular contact with customers

We aim to cultivate good working relationships with our existing and potential customers. Through visits to these customers' offices and factories, we are able to develop an in-depth understanding of our customers' needs. As a result, we are able to serve them better and provide solutions which suit their requirements. Further, we also work directly and closely with our customers on a regular basis to ensure that all our customers' needs are met effectively and efficiently.

### (c) Corporate website

We have established a corporate website at https://www.betamek.com.my/ which provides easy access to information on our range of vehicle electronics and accessories. Our website provides a platform for point of contact with potential customers who have enquiries about our range of services and products.

## 7. BUSINESS OVERVIEW *(Cont'd)*

### 7.16 R&D

Our R&D efforts are aimed at supporting D&D of automotive electronic products where:

(a) on an on-going basis, we develop new varieties of vehicle infotainment systems with different features to meet the requirement specifications of our customers for future models of vehicles by improving the specifications such as Smart Device Link (SDL) as well as telematics and e-call system, product design as well as recommending suitable materials;

(b) we constantly source innovative technologies and apply these technologies to our products. We may also collaborate with third party consultants on platform and software design (entire system), if necessary; and

(c) continuously improve the efficiency and effectiveness of our production process and QC enhancement.

Our Group incurred approximately RM1.0 million, RM2.0 million, RM5.7 million and RM1.3 million in FYE 2019, FYE 2020, FYE 2021 and FYE 2022, respectively for expenses related to R&D which includes the cost for R&D undertaken jointly with PERODUA for FYE 2019 to FYE 2022 as disclosed in Section 7.11.2 (d).

In addition, we also engage in joint R&D projects and studies with PERODUA Group and DMC for new technologies and features, which include among others, the following:

(a) designing, validating, testing and fine-tuning engineering solutions and sample parts;

(b) developing customised design of electronic parts; and

(c) depending on the specific requirements of the products, sourcing appropriate semiconductors, components and delivering the automotive electronics incorporating our engineering solutions and/or design.

Through constant R&D and close collaboration with our customers and suppliers, we have successfully designed and developed various automotive electronics for PERODUA Group. Our product roadmap over the years is depicted as follows:

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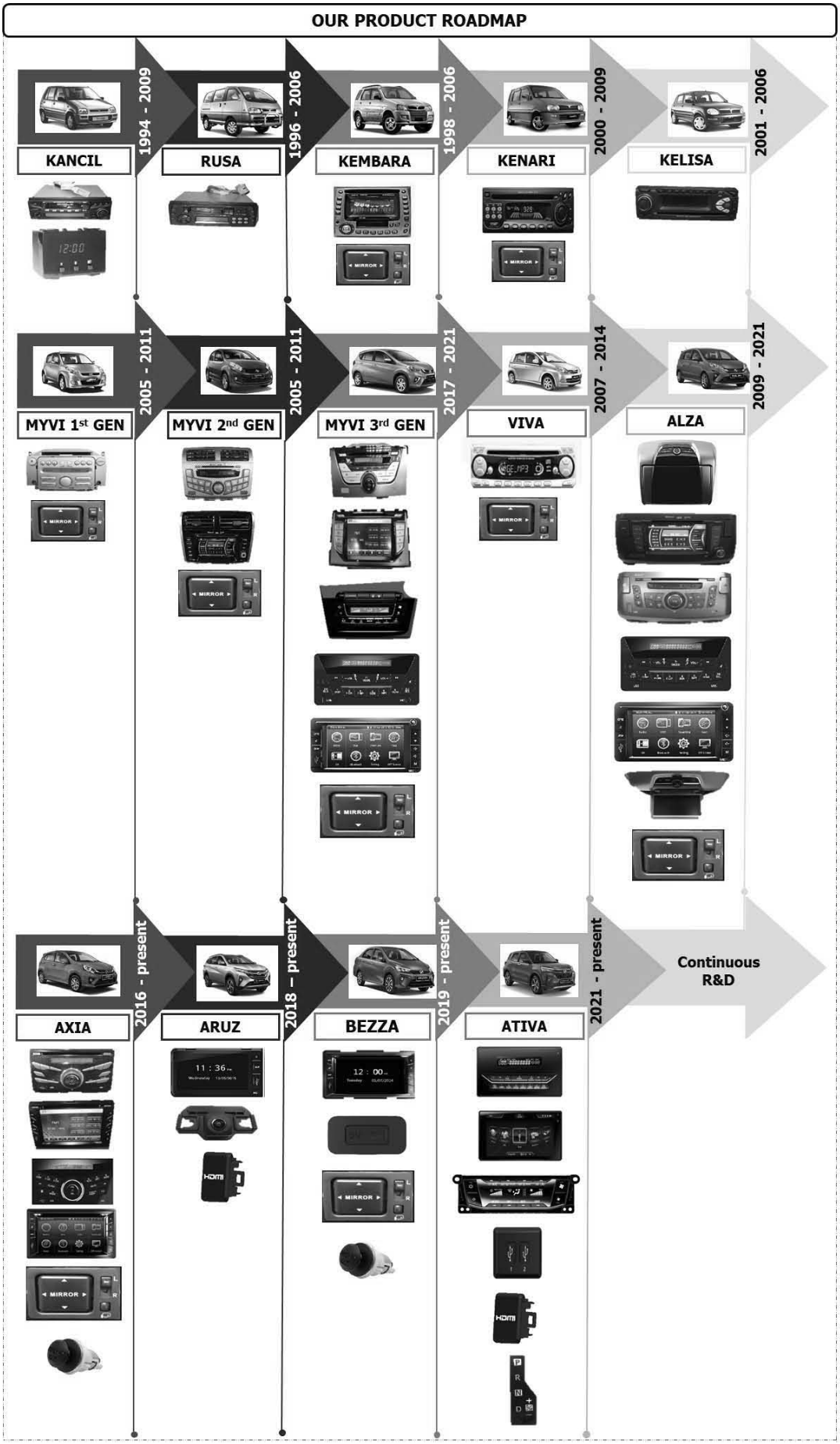
## 7. BUSINESS OVERVIEW *(Cont'd)*



## 7. BUSINESS OVERVIEW *(Cont'd)*

As part of the joint R&D together with PERODUA, PERODUA will perform factory visits on our Rawang Factory to assess our production readiness in the months leading up to mass production for every new vehicle model. We typically have 2 to 3 factory visits prior to the mass production of each new vehicle model, and we typically have 2 to 3 new vehicle models annually. Throughout the course of the joint R&D, we also schedule several business meetings with PERODUA which we host at our Rawang Factory. Further as a PERODUA supplier, we also benefit from trainings carried out by PERODUA at our Rawang Factory, as and when such trainings are scheduled. We also receive visits from the senior management of PERODUA which may be scheduled annually or biannually.

When our Group develops any products under the joint R&D with PERODUA, the ownership rights for the designs of end products developed under the joint R&D with PERODUA will remain with our Group, and we will be the sole supplier for products of that specific design, whereas the end products themselves for the specific vehicle models belong to PERODUA.

In order to incorporate the latest and applicable technologies in our automotive electronic products, we collaborate with third party technology companies namely Shenzhen Zhonghong Technology Co Ltd and KPIT. We collaborate with Shenzhen Zhonghong Technology Co Ltd, a company based in China, in the areas of automotive electronic product software and hardware technology for ICs. Besides, we also source our input materials, namely ICs from Shenzhen Zhonghong Technology Co Ltd.

Shenzhen Zhonghong Technology Co Ltd was founded in China in 1999 as a technology enterprise. Shenzhen Zhonghong Technology Co Ltd is principally involved in the R&D and innovation of automotive electronic product software and hardware technology. Shenzhen Zhonghong Technology Co Ltd is headquartered in Futian District (Shenzhen, China), and has R&D centers in Longgang District (Shenzhen, China) and Nan'an District (Chongqing City, China), which serve automakers and tier 1 manufacturers to automakers in China and foreign markets, such as our Group.

In 2019, we signed a Memorandum of Understanding with KPIT an automotive software solutions company. Through our collaboration with KPIT, we aim to strengthen our R&D capabilities as well as to develop and introduce more innovative technologies and new product solutions that have market potential. The Memorandum of Understanding with KPIT has lapsed in June 2019. Nonetheless, our Group has in November 2020 completed the development of a new infotainment system and is in the process of enhancing our telematics system with KPIT, pending the finalisation of the terms of such collaboration.

Following our collaboration with our technology partners, we relaunched our vehicle entertainment system with our proprietary platform in 2021.

Please refer to Section 7.17.1 (b) for more details on our future product development plans.

## 7. BUSINESS OVERVIEW *(Cont'd)*

### 7.17 FUTURE PLANS AND BUSINESS STRATEGIES

#### 7.17.1 We intend to expand our product offerings through R&D activities

We intend to expand our product offerings through the following approaches:

**(a) Continue to improve our existing products**

Over the years, we have been expanding our product portfolio by including new automotive electronic solutions and technologies required to complement the features of our products. Further, we have upgraded our existing manufacturing facility to accommodate the latest technologies and manufacturing standards to complement our product expansion and business operations requirements.

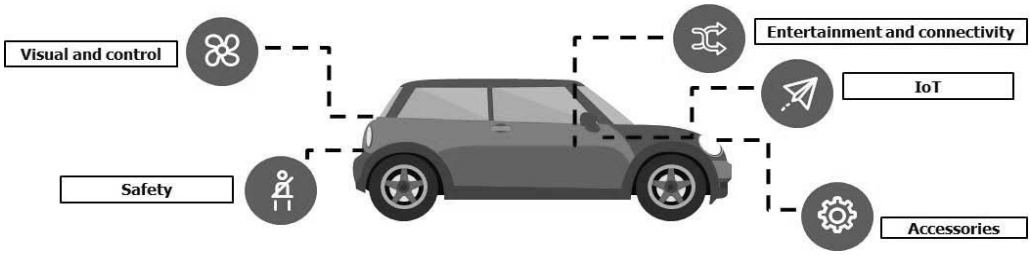
To this end, we intend to continue developing enhanced products through R&D activities to better meet our customers' evolving requirements and preferences as well as diversify our customer base. We will also continue to seek co-operation opportunities with our suppliers and customers. Through our continuous efforts to expand or develop new enhanced products, we expect to be able to distinguish ourselves from our competitors.

We will also continuously improve ourselves to provide better products and services to our customers. Through attending industry exhibitions and maintaining close communications with our customers, we aim to keep ourselves abreast of the latest market intelligence and gain insights on the latest market trends and developments, which will allow us to better respond to our customers' requests, increase our customers' satisfaction and explore new market opportunities, such as requirements for better materials and processes, enhanced products features, durability and cost effectiveness.

**(b) Identify product segments that have growth potential**

To remain competitive in the industry, we intend to identify product segments that we consider to have growth potential and optimise our product mix.

As at LPD, we are in discussion with our technology partners with the intention to strengthen our R&D capabilities as well as to develop and introduce more innovative technologies and new product solutions that have market potential. In this respect, we consider that there are still many untapped opportunities for product segments in relation to ADAS, entertainment and connectivity, IoT and accessories of vehicles.




The end-products applications within such strategic segments are set out in the table below:

| Product segment | Example of end-product applications |
|---|---|
| Visual and control | Virtual instrument cluster, climate control panel, heads-up display and streaming rear view mirror |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| Product segment | Example of end-product applications |
|---|---|
| Safety | ADAS, around view monitor, heads-up display, tyre pressuring monitoring system and driving video recorder |
| Entertainment and connectivity | In-vehicle entertainment system, display audio system, rear seat entertainment and smartphone connectivity |
| IoT | Telematics and e-call system |
| Vehicle accessories | Electronic switches and indicators, wireless chargers, digital clocks and cameras |

To facilitate the expansion of our product offerings, we intend to utilise RM7.0 million or approximately 20.7% of the proceeds from our Public Issue for R&D activities. Details of the estimated R&D expenditure are set out in the table below:

| | Description | Timeframe | Utilisation of proceeds (RM'000) |
|---|---|---|---|
| (a) | Recruitment of R&D staff (1) | 24 months | 1,500 |
| (b) | Technical partnership expenses (2) | 24 months | |
| | - Shenzhen Zhonghong Technology Co Ltd | | 2,500 |
| | - KPIT | | 500 |
| (c) | Tooling and engineering samples (3) | 24 months | 1,000 |
| (d) | R&D equipment, comprising: | 36 months | |
| | - testing equipment; | | 600 |
| | - function simulators; | | 600 |
| | - engineering software; | | 200 |
| | - checking jigs; and | | 20 |
| | - workstations | | 80 |
| | | | **7,000** |

**Notes:**

(1) Consisting of salaries, medical allowances, staff benefits and other related expenses for the hiring of 2 R&D managers and up to 10 entry-level engineers.

(2) Consisting of expenses for provision of technology consultancy, testing and technical feedback relating to our potential automotive technology collaboration with software solutions and technology providers such as Shenzhen Zhonghong Technology Co Ltd and KPIT in the product segments identified above.

(3) Comprising the procurement and fabrication of metal parts and plastic moulds for the production of automotive electronic products.

We intend to focus on R&D activities within these areas of end-product applications, which involves the inter-networking of devices embedded with electronics, sensors, actuators and network connectivity. The concept of inter-networking including Bluetooth, Wi-Fi, 4G, 5G and other future technologies are driving the automotive industry towards the design of new generation products.

## 7. BUSINESS OVERVIEW *(Cont'd)*

Presently, we are involved in the R&D activities which were generally initiated by our customers in respect of their products during the process of product development and prototyping upon their request. Through R&D collaboration with our technology partners, we are envisaged to possess the following technical know-how, among others, including:

- In-vehicle software technology – Understanding the intricacies of vehicle architecture and software development, sourcing innovative technologies and applying such technologies to our products, where applicable; and

- Engineering design and integration – Exploring new emerging and disruptive automotive technologies for components such as AI, 5G, cloud computing as well as improving the quality and architecture design of PCBs to achieve the desired product specifications and performance.

We believe that the vehicle infotainment system of the modern day is an evolution of the vehicle-stereo, combining elements of audio and video, IoT, GPS and navigation capabilities, communications, safety and security as well as other vehicle accessories with vehicle control's console. These systems will be pre-installed and are able to integrate with the rest of the vehicle and future technologies such as hybrid, electric and autonomous vehicles.

We currently manufacture and supply the products as set out in Section 7.4. We believe our Group has the capabilities to offer further developments to the vehicle infotainment system by integrating features as mentioned above. To this end, we are required to continuously improve R&D capabilities to meet the potential demand originating from the new shift in automotive technologies.

As at LPD, we are still at the early stages of undertaking joint R&D activities with our technology partners, and we have commercialised some of these technologies as features in PERODUA's latest vehicle models. We will continue to identify new technologies that we consider to have significant growth potential and introduce these as features in our product offering, particularly those which may have synergistic potential with our existing key product categories.

### 7.17.2 We intend to enhance and upgrade our manufacturing facility

#### (a) Expand R&D office space, raw material storage and ancillary facilities

In conjunction with the renovation for our Group's new manufacturing facility, we also require more space for our office and raw material storage to cater for our future growth, as well as for future R&D activities. Therefore, as part of our business strategies, we have allocated RM6.5 million from the proceeds of the Public Issue for the expansion of our R&D office space, raw material storage and ancillary facilities which entail civil and structural works as well as mechanical, electrical and plumbing works to upgrade our facilities in the Rawang Factory including the renovation of our existing first floor the office. This plan is to create more space for purposes of R&D, in line with our plans to further invest in our R&D efforts.

The expansion of our office and ancillary facilities will entail:

(i) The demolition of our existing canteen and surau building, to be replaced with a 3-storey annexe building with an estimated built-up area of 2,736 sq m to house:

(aa) A raw material store measuring 912 sq m;
(bb) R&D office with upgraded testing facilities measuring 912 sq m;

## 7. BUSINESS OVERVIEW *(Cont'd)*

(cc) Surau;
(dd) ERT (Emergency Response Team) first-aid room/sick bay with employee welfare facilities; and
(ee) Canteen with kitchen facilities.

Items (cc) to (ee) will occupy 912 sq m collectively.

(ii) Renovation of our existing first floor office space and facilities.

Based on internal management estimates, the total construction cost of the 3-storey annexe building is estimated at RM6.0 million. This cost includes the mechanical and electrical works, demolition, consultancy and authority fees. The renovation of our existing first floor office space and facilities is expected to cost approximately RM0.5 million.

| **Construction works** | **Estimated cost (RM'000)** |
|---|---|
| 3-storey annexe building | |
| (a) substructure/ piling works | 902 |
| (b) civil and structural works | 1,806 |
| (c) mechanical and electrical works | 1,866 |
| (d) architectural finishing | 1,445 |
| **Total** | **6,019** |

We expect to engage the relevant professionals to provide their quotations and estimates for the above expansions by late 2022, and obtain the necessary documents and consultant designs within 3 months. Thereafter, we expect to make the relevant submissions to authorities by early 2023 and obtain approval within 4 months. Construction is then estimated to take 12 months after approvals are obtained, and the relevant CCC is expected to be issued another 3 months.

The design of our existing first floor office space is expected to commence approximately 6 months prior to the completion of the new 3-storey annexe building, and thereafter, the renovation will take 12 months to complete and obtain CCC.

**(b) Automation of manufacturing process**

In line with the Government's emphasis on IR 4.0, we intend to upgrade our manufacturing capacities to adopt aspects of IR 4.0. In general, IR 4.0 utilises efficient manufacturing technologies and applies advanced digitalisation to add value to products and services. This involves the use of automation, AI, IoT and real-time data. This facilitates the automation of all critical processes without human dependence, and thus increasing quality, efficiency and productivity.

Presently, our PCB assembly operations are automated and operated with SMT method, with in-line AOI machine that incorporates a three-dimension inspection system. To further automate our core business process and systems, we are currently in the process of adopting customised software and system to complement our business operations which will allow us to better monitor and control the complex processes executed during our production processes.

## 7. BUSINESS OVERVIEW *(Cont'd)*

We are investing in software and system development and implementation to facilitate factory automation towards IR 4.0. These software and systems will create a network to link our manufacturing facility including smart warehousing system and material handling system, which includes a computerised manufacturing execution system to better manage the movement of our input materials, work-in-progress materials and finished goods on our production floor. This saves time and paperwork as it provides us with a real-time view of our manufacturing process to better make informed decisions and solve manufacturing problems. Further, it will enable our production team to see deviations, understand where they come from and take control of remedying the situation. With this, we will be able to reliably and repeatably identify process issues as they happen during our production operations to reduce costs, maximise our resources and facilities.

In addition, we intend to further automate some of the repetitive and laborious tasks in our manufacturing process to help us improve speed, productivity, quality and reduce human errors or wastage. We have identified the adoption of robotic soldering machines, which will be integrated with our subassembly lines. Presently, our soldering process is facilitated by wave soldering and manual soldering. The robotic soldering machine is expected to help reduce labour costs, ensure consistency in soldering quality and achieve higher production rates. This robotic soldering machine will not replace our manual or wave soldering in entirety, however, it is expected to complement our manual soldering process. In line with our plan to increase the level of automation of our manufacturing facility, we intend to acquire 5 units of robotic soldering machines, to be financed from the proceeds of Public Issues as set out in (c) below.

### (c) Purchase of machinery and equipment

We regularly review our manufacturing processes and explore ways to improve our manufacturing capability in order to meet customer requirements. We intend to acquire machinery and equipment for Rawang Factory to enhance our manufacturing efficiency and production capabilities to reduce our reliance on external suppliers, details of which are set out in the table below:

| Type of machinery and equipment | Function | No. of units | Estimated cost (RM'000) |
|---|---|---|---|
| X-ray inspection machine | For inspecting the soldering quality of ball grid array ("**BGA**") components | 1 | 730 |
| BGA rework station | For BGA rework | 1 | 260 |
| PCB router | For cutting irregular shaped PCBs | 2 | 560 |
| Robotic/ Automated soldering machine | Reduce manual soldering tasks and improve soldering quality | 5 | 1,450 |
| | | **Total** | **3,000** |

These machinery and equipment are expected to be put into full use by 2023.

## 7. BUSINESS OVERVIEW *(Cont'd)*

### 7.18 PROSPECTS OF OUR GROUP

We believe that our prospects in the automotive electronics industry are favourable, taking into account the recovery and long term growth of the automotive industry, the sales target of our customer, our competitive strengths set out in Section 7.11, and our business strategies as set out above.

The following industry outlook is extracted from the IMR Report:

In Malaysia, the sales value of the manufacture of parts and components for motor vehicles has increased from RM30.0 billion in 2019 to RM32.3 billion in 2021 at a CAGR of 3.8%. The manufacture of automotive electronics is a subset of the manufacture of parts and components for motor vehicles.

PROVIDENCE projects that the sales value of the manufacture of parts and components for motor vehicles will grow from RM32.3 billion in 2021 to RM39.9 billion in 2025 at a CAGR of 5.4%, supported by the following demand drivers:

- growth in the automotive industry;
- the ability of automotive EMS industry players to offer R&D services;
- technological revolution and advancements in automotive electronics;
- increased outsourcing and relocation of electronics manufacturing activities to Southeast Asia; and
- Government initiatives to support the automotive industry.

Collectively, these demand drivers are anticipated to bode well for the growth potential of the automotive EMS industry in Malaysia.

Automotive sales in Malaysia rose from 580,085 units in 2016 to 604,287 units in 2019 at a CAGR of 1.4%. This growth was underpinned by increased economic activity and trade flows. In 2020 and 2021, automotive sales were adversely affected by various restrictions imposed by the Government to curb the spread of COVID-19. As a result, automotive sales dropped to 529,434 units in 2020 and 508,911 units in 2021. National automotive marques, PROTON and PERODUA, collectively commanded 59.9% share of automotive sales in 2021.

The Malaysian Automotive Association forecasts that total sales of vehicles would reach 600,000 units in 2022 (comprising 540,000 passenger vehicles and 60,000 commercial vehicles). The sales tax exemption incentive for passenger vehicles which was extended until 30 June 2022 and the ramping up of production and deliveries by automotive companies to fulfil backlog and new orders will be among the main contributors to improving sales. Consumer spending is also expected to revive with Malaysia's recovery. The introduction of new models including electric vehicles at more competitive prices, promotional campaigns to push sales would also support in sustaining buying interest.

The expectation of global and Malaysia's economic recovery, the continuation of the sales tax exemption incentive for passenger vehicles under the National Economic Recovery Plan ("**PENJANA**") package, and lower hire purchase loan interest rates would help to spur automotive sales. Under the PENJANA package, the Government announced a sales tax exemption of up to 100% for completely-knocked down (CKD) passenger vehicles and 50% for on completely built-up (CBU) passenger vehicles. The sales tax exemption incentive for passenger vehicles under the PENJANA package which initially commenced for the period between 15 June 2020 to 31 December 2020 was subsequently extended to 30 June 2022. The introduction of new automotive models with the latest additional specifications, design styles and competitive pricing would also assist in sustaining buying interest.

## 7. BUSINESS OVERVIEW *(Cont'd)*

In April 2022, PERODUA announced an annual sales target of 247,000 vehicles for 2022, after achieving sales of only 190,291 vehicles in 2021. On a quarter-on-quarter comparison, PERODUA posted 61,624 vehicles registered in the first quarter of 2022, an increase of 6.4% from the 57,909 vehicles sold in the first quarter of 2021.

*(Source: IMR Report by PROVIDENCE)*

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## 7. BUSINESS OVERVIEW *(Cont'd)*

### 7.19 MAJOR CUSTOMERS

Our revenue from customers varies from year to year. Our top 5 major customers for FYE 2019 to 2022 are as follows:

**FYE 2019**

| No. | Customers | Business activities | Types of products sold | Revenue contribution | | Length of relationship[5] |
|---|---|---|---|---|---|---|
| | | | | RM'000 | % | Years |
| 1. | Perodua Manufacturing [1] | Manufacturer and assembler of motor vehicles | Vehicle audio and accessories | 88,883 | 70.2 | 28 |
| 2. | Perodua Global Manufacturing [2] | Manufacturer and assembler of motor vehicles | Vehicle audio and accessories | 24,080 | 19.0 | 8 |
| 3. | Perodua Sales [3] | Manufacturer and assembler of motor vehicles | Vehicle audio and accessories | 8,150 | 6.4 | 11 |
| 4. | HIL Industries [4] | Manufacturer and assembler of plastic moulded components and parts | Reverse cameras | 3,465 | 2.7 | 5 |
| 5. | Sipro Plastic [4] | Manufacturer and assembler of plastic moulded components and parts | Air conditioning control panels and reverse cameras | 1,087 | 0.9 | 7 |
| | | | | **125,665** | **99.3** | |

## 7. BUSINESS OVERVIEW *(Cont'd)*

**FYE 2020**

| No. | Customers | Business activities | Types of products sold | Revenue contribution | | Length of relationship[5] |
|---|---|---|---|---|---|---|
| | | | | RM'000 | % | Years |
| 1. | Perodua Manufacturing [1] | Manufacturer and assembler of motor vehicles | Vehicle audio and accessories | 94,704 | 72.4 | 28 |
| 2. | Perodua Global Manufacturing [2] | Manufacturer and assembler of motor vehicles | Vehicle audio and accessories | 21,088 | 16.1 | 8 |
| 3. | Perodua Sales [3] | Manufacturer and assembler of motor vehicles | Vehicle audio and accessories | 5,782 | 4.4 | 11 |
| 4. | HIL Industries [4] | Manufacturer and assembler of plastic moulded components and parts | Reverse cameras | 3,720 | 2.8 | 5 |
| 5. | Sipro Plastic [4] | Manufacturer and assembler of plastic moulded components and parts | Air conditioning control panels and reverse cameras | 3,274 | 2.5 | 7 |
| | | | | **128,568** | **98.3** | |

**FYE 2021**

| No. | Customers | Business activities | Types of products sold | Revenue contribution | | Length of relationship[5] |
|---|---|---|---|---|---|---|
| | | | | RM'000 | % | Years |
| 1. | Perodua Manufacturing [1] | Manufacturer and assembler of motor vehicles | Vehicle audio and accessories | 87,669 | 67.5 | 28 |
| 2. | Perodua Global Manufacturing [2] | Manufacturer and assembler of motor vehicles | Vehicle audio and accessories | 25,565 | 19.7 | 8 |
| 3. | Perodua Sales [3] | Manufacturer and assembler of motor vehicles | Vehicle audio and accessories | 8,021 | 6.2 | 11 |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| No. | Customers | Business activities | Types of products sold | Revenue contribution | | Length of relationship[5] |
|---|---|---|---|---|---|---|
| | | | | RM'000 | % | Years |
| 4. | HIL Industries [4] | Manufacturer and assembler of plastic moulded components and parts | Reverse cameras | 3,326 | 2.6 | 5 |
| 5. | Sipro Plastic [4] | Manufacturer and assembler of plastic moulded components and parts | Air conditioning control panels and reverse cameras | 3,060 | 2.4 | 7 |
| | | | | **127,641** | **98.3** | |

**FYE 2022**

| No. | Customers | Business activities | Types of products sold | Revenue contribution | | Length of relationship[5] |
|---|---|---|---|---|---|---|
| | | | | RM'000 | % | Years |
| 1. | Perodua Manufacturing [1] | Manufacturer and assembler of motor vehicles | Vehicle audio and accessories | 68,386 | 51.4 | 28 |
| 2. | Perodua Global Manufacturing [2] | Manufacturer and assembler of motor vehicles | Vehicle audio and accessories | 50,000 | 37.6 | 8 |
| 3. | Perodua Sales [3] | Manufacturer and assembler of motor vehicles | Vehicle audio and accessories | 7,949 | 6.0 | 11 |
| 4. | HIL Industries [4] | Manufacturer and assembler of plastic moulded components and parts | Reverse cameras | 2,473 | 1.9 | 7 |
| 5. | Sipro Plastic [4] | Manufacturer and assembler of plastic moulded components and parts | Air conditioning control panels and reverse cameras | 2,155 | 1.6 | 5 |
| | | | | **130,963** | **98.5** | |

## 7. BUSINESS OVERVIEW *(Cont'd)*

**Notes:**

(1) Perodua Manufacturing manufactures the PERODUA MYVI, ALZA and ARUZ models.

(2) Perodua Global Manufacturing manufactures the PERODUA BEZZA, AXIA and ATIVA models.

(3) Perodua Sales is the company responsible for the marketing and distribution of vehicles, related spare parts and other related activities.

(4) Sipro Plastic and HIL Industries are selected suppliers of PERODUA Group, who specialise in the manufacturing of plastics parts. We procure, manufacture, sub-assemble and supply digital air conditioning control panels and reverse cameras for final assembly for Sipro Plastic and HIL Industries. The finished products will then be supplied and delivered by them to PERODUA Group for vehicle assembly.

(5) Length of relationship as at FYE 2022.

Our Group had a total of 9 customers in each of the FYE 2019, FYE 2020, FYE 2021 and FYE 2022.

Our top 5 major customers for FYE 2019, FYE 2020, FYE 2021 and FYE 2022 contributed to the majority of our revenue, representing 99.3%, 98.3%, 98.3% and 98.5% of our total sales, respectively. Perodua Manufacturing, Perodua Global Manufacturing and Perodua Sales are part of the PERODUA Group. In addition, we procure, manufacture, sub-assemble and supply air conditioning control panels and reverse cameras to HIL Industries and Sipro Plastic, where the subassemblies will go through further assembly. HIL Industries and Sipro Plastic are also selected suppliers of PERODUA Group. In this respect, all our major customers are suppliers of PERODUA Group and our business operation is significantly dependent on PERODUA Group as we derive significant revenue from them.

Additionally, we have other customers who are also the suppliers of PERODUA Group. These customers contributed to RM0.9 million (0.7%), RM0.9 million (0.7%), RM0.9 million (0.7%) and RM0.7 million (0.5%) of our total sales for FYE 2019 to 2022 respectively. In this respect, we are significantly dependent, directly or indirectly through our other customers, on PERODUA Group as we derive from 99.0% to 100.0% of our total revenue from PERODUA Group for FYE 2019 to 2022.

Moving forward, we expect our major customers to continue contributing significantly to our revenue. We have maintained a long and mutual beneficial relationship with them over the years and this has provided our Group with a strong platform for future growth. However, if PERODUA chooses not to be our customer or appoint us as their supplier, our Group's financial performance will be adversely affected. Nonetheless, please refer to Section 7.11.2 for further details of our long standing relationship with PERODUA Group.

## 7. BUSINESS OVERVIEW *(Cont'd)*

We have entered into the following agreements with PERODUA Group, on which our business is materially dependent upon:

(a) Supply and Purchase Agreement dated 11 September 2008 between BESB and Perodua Manufacturing; and

(b) Supply and Purchase Agreement dated 3 May 2011 between BESB and Perodua Sales.

(collectively, the "**SPAs**")

The salient terms of the SPAs are as follows:

| | **Descriptions** |
|---|---|
| **Purpose** | Pursuant to the SPAs, BESB agrees to manufacture and produce (or source from third party, where appropriate) such components, items, material or article (collectively, "**Vehicle Parts**") as may be specifically identified in the letter of appointment from time to time issued by Perodua Manufacturing and Perodua Sales (collectively, the "**Customer**") to BESB, and in such quantum and at such intervals as may be advised by the Customer. |
| **Term** | The SPAs are not subject to any fixed tenure or duration. |
| **Contract Value** | The prices for the Vehicle Parts shall be subject to agreement in writing between the Customer and BESB prior to commencement of orders for the relevant Vehicle Parts. The Customer shall pay for the Vehicle Parts in accordance with the credit terms established, or in absence of the same, within 60 days from the end of the month where the goods were delivered. |
| **Standard and specifications** | All Vehicle Parts shall conform to such standards, quality, designs, know-how, specifications and requirements furnished by the Customer to BESB, as well as any drawings, moulds/dies, specifications, samples and prototypes furnished by BESB to and approved by the Customer. |
| **Delivery time** | BESB agrees that time is of the essence, and it shall, without delay, inform the Customer if it is unable to deliver the Vehicle Parts in accordance with the Customer's instructions. The Customer may, without prejudice to its right to claim damages for breach, cancel any order and procure the Vehicle Parts from alternative source if, in the Customer's view, BESB is unlikely to deliver or is unable to deliver the same according to the Customer's instructions. If the price of the Vehicle Parts sourced from alternative source is higher than the price from BESB, BESB is liable to pay the differential sum and any other associated costs to the Customer. |
| **Termination** | The SPA may be terminated in the following circumstances: |

## 7. BUSINESS OVERVIEW *(Cont'd)*

**Descriptions**

(a) The Customer may exercise the right to terminate the SPA by giving 14 days written notice to BESB if BESB is in default, e.g.:

(i) BESB suspends or abandons the performance of the SPA for more than 30 days and further fails to resume performance thereof within 15 days after receipt of a notice from the Customer requiring it to do so;
(ii) BESB is not performing its obligations in accordance with the SPA so that as a result, in the Customer's reasonable opinion, BESB will be unable to deliver the Vehicle Parts to the Customer by the scheduled delivery time;
(iii) BESB has failed to replace any Vehicle Parts for 28 days after receiving a notice of rejection from the Customer;
(iv) BESB has breached any of its material obligations under the SPAs which is not remedied within 30 days after its receipt of a notice from the Customer to BESB, stating that such breach has occurred, identifying the breach in reasonable detail and demanding remedy thereof;
(v) BESB has failed to undertake or complete any rectification and/or modification required in the SPAs in the event of any failure, defect, damage or fault in the Vehicle Parts howsoever arising (including but not limited to, mistakes, negligence, omission or errors in BESB's manufacturing, production and supply of the Vehicle Parts and/or in BESB's procurement or inspection), or if BESB is unable to meet any required tests, including performance tests for the Vehicle Parts, or there is poor workmanship in the Vehicle Parts due to improper procurement, construction and quality of workmanship;
(vi) there is a material change in the business of BESB or if BESB sells its existing business or part of the business to a third party;
(vii) BESB commits any breach of any code of ethical practices in the conduct of its operations under the SPAs, including authorising or making any bribery, kickbacks, gifts or payments in violation of the laws of Malaysia or other applicable jurisdictions; or
(viii) in the event of a change in Control of BESB or the ultimate entity or entities that control BESB, and for this purpose, "Control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities, contract or trust.

(b) the SPAs shall automatically terminate if BESB is removed from the Customer's panel of vendors;

## 7. BUSINESS OVERVIEW *(Cont'd)*

| | Descriptions |
|---|---|
| | (c) if either party is prevented for more than 30 days continuously from complying with its obligations under the SPAs due to a Force Majeure Event, the aggrieved party has the right to terminate the SPAs by giving 14 days written notice to the other party of such intention to terminate, and for this purpose, "Force Majeure Event" means any event or circumstance not within the control of a party, and which by exercise of due diligence, such party is not reasonably able to prevent or overcome, acts of God including (without limitation) landslides, fire, earthquakes, floods, washouts, lightning, storm and tempest or inclement weather; and |
| | (d) The Customer may also terminate the SPAs or the relevant part of the scope of the supply of the Vehicle Parts by giving 6 months written notice to BESB. |
| **Suspension of agreement** | The Customer may, at any time, suspend all or any part of the supply of the Vehicle Parts for any reason whatsoever by giving written notice to BESB specifying the part of the scope of supply to be suspended and the effective date of suspension. The Customer may give notice to BESB to terminate the part of the scope of supply suspended provided that 120 calendar days have elapsed since the effective date of the suspension and provided the Customer has not, within the said period, given BESB notice to resume the scope of the supply so suspended. In the event of such termination by Customer, neither party shall be liable to the other for loss of profit or anticipated loss of profit sustained on account of such termination. |
| **Liability for third party supplier's acts** | Where BESB is sourcing any particular Vehicle Parts from any third party, BESB undertakes: |
| | (a) to appoint only third party approved by the Customer; |
| | (b) to ensure that such third party have the necessary skill, expertise and experience for the due performance of any obligation required; |
| | (c) not to release the Customer's technical information to such third party without the prior written consent of the Customer; |
| | (d) to be responsible for the acts, defaults and neglects of such third party as if they were the acts, defaults or neglects of BESB, and shall save harmless and indemnify the Customer in respect of all claims, demand, proceedings, damages, costs, charges and expenses whatsoever arising out of or in relation to any such matters; and |
| | (e) not to terminate or change the appointment of any third party without the prior written consent of Customer. |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| | Descriptions |
|---|---|
| **Product warranty** | BESB warrants that the Vehicle Parts are of merchantable quality, free from defects in materials and workmanship and fit for their intended purpose. BESB's warranty for the Vehicle Parts shall be as stated in letters of appointment for the relevant Vehicle Parts (i.e. 3 years after initial delivery of the vehicle by the Customer to the original purchaser). |
| **Supply for replacement market** | BESB undertakes to continue to supply the Vehicle Parts for replacement market to such third party as may be advised by the Customer for a period of 10 years after the run out of the assembly of the vehicles that uses the Vehicle Parts. |
| **Indemnity** | BESB shall indemnify the Customer from and against all claims, suits, damages, judgments and losses arising from, among others:<br><br>(a) any infringement or alleged infringement of any third party's intellectual property rights in respect of the Vehicle Parts; and<br><br>(b) death and injury to any person or any damage to property which is alleged to result from any defect in the manufacturing of the Vehicle Parts. |
| **Compensation** | In the event of any discrepancy between the number of Vehicle Parts delivered and the amount quoted in the delivery order, BESB is liable to pay compensation to the Customer equivalent to 10 times of the shortfall number. In addition, if BESB fails to deliver the Vehicle Parts within the time specified, or the Vehicle Parts fail the inspection tests pursuant to the SPA thereby resulting in a shortfall of the relevant Vehicle Parts, or BESB delivers Vehicle Parts that are different from that requested under the Customer's instructions or delivers insufficient quantity of the Vehicle Parts, and the occurrence of any of the events causes a disruption to the production of any of the Customer vehicles, the compensation payable by BESB to the Customer shall be as follows:<br><br>(a) under the SPA with Perodua Sales - RM500.00 per minute or any other sum as may be revised by Perodua Sales at its sole discretion with prior notification to Perodua Sales;<br><br>(b) under the SPA with Perodua Manufacturing – the lesser of (i) RM2,000.00 for every minute or part thereof that any part of the assembly line in any production facility of Perodua Manufacturing or its affiliated companies stop production; or (ii) a sum equal to not exceeding 15% of BESB's average monthly turnover for the preceding 6 months. |
| **Non-exclusivity** | The SPAs shall not be construed in any circumstances as giving BESB the sole and exclusive right to manufacture the Vehicle Parts. |

## 7. BUSINESS OVERVIEW *(Cont'd)*

| | Descriptions |
|---|---|
| **Compliance with safety, health and environmental laws** | BESB shall comply with all laws (whether international, national, local or otherwise) and regulations pertaining to health, safety and environmental protection, including fire protection and security regulations. In addition, BESB shall ensure that all materials and items used in the Vehicle Parts comply with applicable laws and generally accepted industry standards for occupational safety and health. BESB shall be solely responsible for the health and safety aspects of the supply of Vehicle Parts. |
| **Confidentiality** | BESB shall at all times, keep confidential and safeguard with particular care all drawings, technical specifications, designs, inspection standards, quality standards, other similar or related documents, samples of the Vehicle Parts, know-how and technical skills furnished by the Customer to BESB for the manufacture of the Vehicle Parts, as well as all drawings, moulds/dies, specifications, samples and prototypes furnished by BESB and approved by the Customer. |

As at LPD, we have not encountered any incidents where our Group is required to compensate PERODUA Group pursuant to the SPAs. Furthermore, our Group can also supply to other automobile manufacturers as there is no prohibition by PERODUA in doing so. Our Group has been supplying USB chargers to Auto Antenna Manufacturer Sdn Bhd ("**Auto Antenna**") for PROTON models since May 2019. From FYE 2020 to 2022, our Group supplied USB chargers to Auto Antenna for PROTON Saga, Iriz and Persona models. Our sales to Auto Antenna amounted to RM1.3 million (1.0%), RM1.3 million (1.0%) and RM0.9 million (0.7%) of our Group's revenue for FYE 2020, FYE 2021 and FYE 2022 respectively. Apart from Auto Antenna, to which our Group supplies USB chargers for PROTON models, we do not supply to any other automobile manufacturers except for PERODUA Group and its suppliers. We intend to supply our vehicle audio products, components and accessories to other automotive manufacturers in the future, and have been doing so by actively participating in tenders by other automobile manufacturers.

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## 7. BUSINESS OVERVIEW *(Cont'd)*

### 7.20 MAJOR SUPPLIERS

Our purchases from our suppliers vary from year to year depending on the amount of materials we purchase from them. Our top 5 major suppliers for FYE 2019 to 2022 are as follows:

**FYE 2019**

| No. | Suppliers | Country of operations | Input materials/products sourced | Value of purchases | | Length of relationship[2] |
|---|---|---|---|---|---|---|
| | | | | RM'000 | [1]% | Years |
| 1. | Shenzhen Zhonghong Technology Co Ltd | China | ICs | 26,922 | 26.6 | 16 |
| 2. | Giga Vision Technology Limited | Hong Kong | LCDs | 9,267 | 9.2 | 8 |
| 3. | Amtel Cellular Sdn Bhd | Malaysia | Camera mechanisms | 6,210 | 6.1 | 7 |
| 4. | Ecom Industrial Pte Ltd | Singapore | ICs | 3,536 | 3.5 | 6 |
| 5. | Sinnova Pte Ltd | Singapore | ICs | 3,137 | 3.1 | 31 |
| | | | | **49,071** | **48.5** | |

**FYE 2020**

| No. | Suppliers | Country of operations | Input materials/products sourced | Value of purchases | | Length of relationship[2] |
|---|---|---|---|---|---|---|
| | | | | RM'000 | [1]% | Years |
| 1. | Shenzhen Zhonghong Technology Co Ltd | China | ICs | 1,723 | 25.8 | 16 |
| 2. | Giga Vision Technology Limited | Hong Kong | LCDs | 7,145 | 18.0 | 8 |
| 3. | Amtel Cellular Sdn Bhd | Malaysia | Camera mechanisms | 5,495 | 4.3 | 7 |
| 4. | IBI Electronics (M) Sdn Bhd | Malaysia | LCDs | 4,952 | 4.2 | 15 |
| 5. | Ecom Industrial Pte Ltd | Singapore | ICs | 3,437 | 3.9 | 6 |
| | | | | **22,752** | **56.2** | |

## 7. BUSINESS OVERVIEW *(Cont'd)*

**FYE 2021**

| No. | Suppliers | Country of operations | Input materials/products sourced | Value of purchases | | Length of relationship[2] |
|---|---|---|---|---|---|---|
| | | | | RM'000 | [1]% | Years |
| 1. | Shenzhen Zhonghong Technology Co Ltd | China | ICs | 25,509 | 29.3 | 16 |
| 2. | Giga Vision Technology Limited | Hong Kong | LCDs | 8,780 | 10.1 | 8 |
| 3. | Amtel Cellular Sdn Bhd | Malaysia | Camera mechanisms | 5,960 | 6.8 | 7 |
| 4. | IBI Electronics (M) Sdn Bhd | Malaysia | LCDs | 4,033 | 4.6 | 15 |
| 5. | Ecom Industrial Pte Ltd | Singapore | ICs | 3,900 | 4.5 | 6 |
| | | | | **48,182** | **55.3** | |

**FYE 2022**

| No. | Suppliers | Country of operations | Input materials/products sourced | Value of purchases | | Length of relationship[2] |
|---|---|---|---|---|---|---|
| | | | | RM'000 | [1]% | Years |
| 1. | Shenzhen Zhonghong Technology Co Ltd | China | ICs | 29,174 | 26.7 | 16 |
| 2. | Giga Vision Technology Limited | Hong Kong | LCDs | 14,739 | 13.5 | 8 |
| 3. | Shenzhen Hongyutianxiang Technology Co Ltd | China | LCDs | 5,850 | 5.3 | 2 |
| 4. | Amtel Cellular Sdn Bhd | Malaysia | Camera mechanisms | 4,627 | 4.2 | 7 |
| 5. | Goodcom Technology Ltd | China | ICs | 4,022 | 3.7 | 2 |
| | | | | **58,412** | **53.4** | |

**Notes:**

(1) Calculated as the value of purchases divided by total purchases for the respective financial years.

(2) Length of relationship as at FYE 2022.

## 7. BUSINESS OVERVIEW *(Cont'd)*

For FYE 2019 to 2022, our Group's top 5 major suppliers accounted for approximately 48.5%, 56.2%, 55.3% and 53.4% of our total purchases respectively. The major input materials that we procure from these suppliers are primarily ICs, PCBs, LCDs and camera mechanisms, which are supplied to us in accordance with our production forecast schedule provided to them. Our production schedule is based on our customers' indicative orders and our expected production capacity. Our customers will also share their production planning schedule with us to facilitate our procurement planning in determining the timeframe for purchases of input materials for our manufacturing process. Despite our long working relationship with most of our major suppliers, there are alternative suppliers readily available, and as such, we are not materially dependent on any single major supplier.

### 7.21 DEPENDENCY ON CONTRACTS, AGREEMENTS OR OTHER ARRANGEMENTS

Save for the SPAs entered into with Perodua Manufacturing and Perodua Sales as disclosed in Section 7.19, our Group is not dependent on any contracts, agreements or other arrangements that could materially affect our business as at LPD.

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## 8. IMR REPORT

PROVIDENCE STRATEGIC PARTNERS SDN BHD
(1238910-A)
67-1, Block D, Jaya One, Jalan Prof Diraja Ungku Aziz,
46200 Petaling Jaya, Selangor, Malaysia.
T: +603 7625 1769

13 September 2022

The Board of Directors
**BETAMEK BERHAD**
Lot 137, Lingkaran Taman Industri Integrasi Rawang 2
Taman Industri Integrasi Rawang
48000 Rawang
Selangor
Malaysia.

Dear Sirs,

**Independent Market Research Report on the Outlook of the Automotive Electronics Manufacturing Services Industry in Malaysia in conjunction with the Listing of BETAMEK BERHAD on the ACE Market of Bursa Malaysia Securities Berhad**

PROVIDENCE STRATEGIC PARTNERS SDN BHD ("**PROVIDENCE**") has prepared this independent market research report on the Outlook of the Automotive Electronics Manufacturing Services Industry in Malaysia for inclusion in the Prospectus of BETAMEK BERHAD.

PROVIDENCE has taken prudent measures to ensure reporting accuracy and completeness by adopting an independent and objective view of these industries within the confines of secondary statistics, primary research and evolving industry dynamics.

For and on behalf of PROVIDENCE:

ELIZABETH DHOSS
EXECUTIVE DIRECTOR

***About PROVIDENCE STRATEGIC PARTNERS SDN BHD:***

*PROVIDENCE is an independent research and consulting firm based in Petaling Jaya, Selangor, Malaysia. Since our inception in 2017, PROVIDENCE has been involved in the preparation of independent market research reports for capital market exercises. Our reports aim to provide an independent assessment of industry dynamics, encompassing aspects such as industry performance, demand and supply conditions, competitive landscape and government regulations.*

***About ELIZABETH DHOSS:***

*Elizabeth Dhoss is the Executive Director of PROVIDENCE. She has more than 10 years of experience in market research for capital market exercises. Elizabeth Dhoss holds a Bachelor of Business Administration from the University of Malaya, Malaysia.*

# 1 AUTOMOTIVE ELECTRONICS MANUFACTURING SERVICES INDUSTRY IN MALAYSIA

## 1.1 INTRODUCTION AND BACKGROUND

Automotive electronics are specially-designed electronics intended for use in automobiles. The major categories of automotive electronics are power controls, safety controls, communications and entertainment systems as well as body electronics. Automotive electronic systems and engine computers do everything from regulating fuel to diagnosing problems. Modern-day vehicles employ between 30 and 80 separate electronic controllers for safety systems, vehicle monitoring, communication and entertainment. Automotive requirements are more rigorous than most other industries regarding quality, reliability, and traceability of parts.

Electronics manufacturing services ("**EMS**") firms are involved in the design, manufacture, testing, distribution and provision of return/repair services for electronic components and assemblies on behalf of brand owners and/or original equipment manufacturers ("**OEMs**"). Brand owners, including automotive marques, have been largely reliant on third party EMS firms for EMS. EMS firms serve a large end-user base such as consumer electronics, telecommunications, automotive and industrial electronics.

The primary manufacturing activity of EMS companies is printed circuit board assembly (PCBA), which is a continuously evolving segment as components are being consistently minisculed with the introduction of more compact new devices. This requires changes to be made to the printed circuit board ("**PCB**") electrical components mounting process to ensure that the final assembled PCB is ready to be used in high technology products.

In today's globalised and competitive market, brand owners have the tendency to focus on core activities and outsource non-core activities in order to remain competitive. Product functionality has improved, while product lifecycles have shortened within the electronics sector. Consumer demand gravitates towards customised, quality products which are delivered at competitive prices. Final assembly manufacturers (hereinafter referred to as brand owners) need to improve time to market while remaining competitive in such situations as above. In an attempt to aim for this, brand owners spend greater efforts on their core competencies, while outsourcing assembly packaging and testing activities to EMS firms.

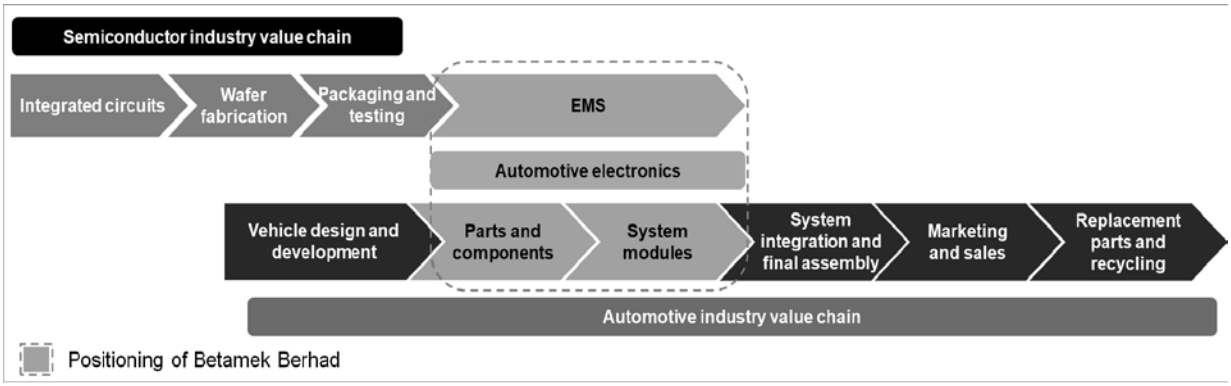
This trend of outsourcing is expected to continue, reinforced by the sustained general thrust among brand owners to concentrate on their core competencies and global competitive positioning, marketing, sales and business development strategies, and to leverage on the cost advantages provided by EMS firms. The EMS industry historically comprised industry players that manufactured electronic products, in particular assemblers of components on PCBs and box builds for OEMs. Over the years, the EMS industry has grown to support the growing demands from OEMs. Today, OEMs and original design manufacturers (ODMs) are seeing more value from EMS companies, leading to involvement beyond just manufacturing services to product design and developments, testing, aftersales services, such as repair, remanufacturing, marketing, and product lifecycle management.

The role of EMS firms in supporting the automotive industry is growing because automakers and their tier 1 suppliers are discovering EMS manufacturing capabilities and competencies in assembling the type of electronics that automotive marques require. In addition, EMS providers can do it in a cost-efficiently while undertaking the necessary capital expenditure investments.

Betamek Berhad is an EMS provider, specialising in the manufacturing and sales of customised electronics and components for the automotive industry. Betamek Berhad undertakes the design and manufacture of:

- vehicle audio products and components comprising radios, car multimedia players and audio accessories; and
- vehicle accessories such as air conditioning control panels, mirror switches, power sockets, reverse cameras and other car accessories.

**Industry positioning of Betamek Berhad**




### 1.2 INDUSTRY SIZE AND GROWTH

Southeast Asia has, in recent years, become a destination for foreign multinational companies to set up their manufacturing facilities, particularly for assembly, packaging and testing processes. This is due to the lower operating costs, availability of talent as well as growing demand for electronic products in this region. In Malaysia, the sales value of the manufacture of parts and components for motor vehicles increased from RM30.0 billion in 2019 to RM32.3 billion in 2021[1] at a compound annual growth rate ("**CAGR**") of 3.8%. The manufacture of automotive electronics is a subset of the manufacture of parts and components for motor vehicles.

PROVIDENCE projects that the sales value of the manufacture of parts and components for motor vehicles will grow from RM32.3 billion in 2021 to RM39.9 billion in 2025 at a CAGR of 5.4%, supported by the following demand drivers:

- the long term growth of the automotive industry;
- the ability of automotive EMS industry players to offer R&D services;
- technological revolution and advancements in automotive electronics;
- increased outsourcing and relocation of electronics manufacturing activities to Southeast Asia; and
- Government initiatives to support the automotive industry.

Collectively, these demand drivers are anticipated to bode well for the growth potential of the automotive EMS industry in Malaysia.

### 1.3 DEMAND CONDITIONS: KEY GROWTH DRIVERS

**Long term growth of the automotive industry drives demand for automotive EMS**

Malaysia's passenger cars and commercial vehicles sales rose from 580,085 in 2016 to 604,287 units in 2019. Of this, sales of passenger cars rose from 514,594 units to 550,179 units while sales of commercial vehicles dipped from 65,491 units to 54,108 units. In 2020, automotive sales were affected by various restrictions imposed by the Government of Malaysia to curb the spread of COVID-19. As a result, sales of passenger cars and commercial vehicles dipped from 604,287 units in 2019 to 529,434 units in 2020, comprising 480,965 units of passenger cars and 48,469 units of commercial vehicles. In 2021, sales further dropped, with 452,663 units of passenger cars and 56,248 units of commercial vehicles sold.[2]

Nonetheless, the automotive industry is anticipated to recover in 2022, boosted by the sales tax exemption incentive for passenger vehicles which has been extended until 30 June 2022, the ramping up of production and deliveries of vehicles to fulfil backlog and new orders, improved consumer spending in tandem with the country's recovery, the introduction of new models including electric vehicles at more competitive prices as well as promotional sales campaigns by automotive marques. A total of 84,303 units of vehicles were sold in the first two months of 2022, in comparison to the 76,840 units sold in the corresponding period of 2021. This increase is attributable to automotive companies ramping up production to fulfil backlog orders.[3]

[1] Department of Statistics Malaysia
[2] Malaysia Automotive Association
[3] Malaysia's February vehicle sales rise to 43,722 units as car makers ramp up production to meet backlog orders, The Edge Markets, 17 March 2022

**The ability of automotive EMS industry players to offer R&D services**

The latest technology innovation and development of automotive electronics focuses on energy saving, environmental protection, safety, comfort, connected communications, entertainment and autonomous driving. These technology innovations are becoming more interdisciplinary and require concerted approaches, involving various industries such as materials sciences (light materials), chemicals (batteries) and consumer electronics (communications and entertainment systems). High costs, risks of all-round development and technical complexity make it difficult for automotive marques to carry out the R&D of some technologies on a stand-alone basis. More parts manufacturers are thus becoming involved fill in this R&D technology gap of automotive marques through investments in navigation, positioning, battery and other new technologies.

Automotive marques therefore tend to outsource the research and development of more parts, resulting in the improvement of parts standardisation and modularisation, which is aligned with automotive marques' strategies to reduce costs and enhance the flexibility of production lines. Given this development, EMS companies with the ability to offer customers long term innovations to develop new customized and improved applications and products will be at a forefront advantage to capture these opportunities. Thus, more components and parts manufacturers are expected to fill in this R&D technology gap of automotive marques through investments in navigation, positioning, battery and other new technologies.

**Technological revolution and technological advancements in automotive electronics**

Market growth is driven by an increase in the types of automotive electronics and constant market requirements to have multifunctional and more compact automotive electronic products. This growth is supported by technological advances, among which include:

- **Evolution of entertainment systems to infotainment systems**

  Automotive electronics have generally been evolving throughout the years, in terms of performance, size and technology. For instance, automotive entertainment systems have evolved from in-car audio systems to infotainment systems. Infotainment systems are a collection of hardware and software in automobiles that provide audio and video content in a combination of information and entertainment. Infotainment systems are a catalyst for transforming an ordinary car into a smart car, that is, one that can provide entertainment features as well as technologies capable of driver-assistance (including assisting a driver while parking a car, alerting the driver on a congested traffic route and suggesting alternative paths) and providing internet connectivity inside a vehicle.

  In-vehicle information system ("**IVIS**") is a service system that transfers information inside and outside a vehicle via wireless communications technology. Its numerous functions could provide services for many users such as drivers/passengers, OEMs, governments, insurance companies and vehicle leasing companies. IVIS has developed rapidly in the past few years, especially in the area of embedded IVIS, which has become the standard configuration for many high-end automotive marques. Most international automotive marques have extended connected vehicles functionalities from high-end vehicle models to general vehicle models.

- **5G and Internet of Things ("IoT") for autonomous cars**

  The introduction of 5G, the fifth-generation technology standard for broadband networks, has been revolutionising the EMS industry with IoT. The latter refers to the interconnection of electronic products. In addition to IoT, the introduction of artificial intelligence and big data analytics have resulted in automotive electronics that allow for the analysis of large sets of data to uncover correlations and insights through machine learning. New final electronic products that have been introduced to the market as a result of these technologies include autonomous cars (which are self-driving or driverless cars).

- **Advanced Driving Assistance System ("ADAS")**

  Automotive marques have been making efforts to explore new growth opportunities through the improvement of car performance, which is driven by the strict regulatory requirements and technological developments, which includes the leap in automotive electronics technology. With the automotive industry evolving towards lightweight, miniaturisation, intelligence and electrification, the market for automotive electronics has grown rapidly. The improved specialisation of EMS firms and parts manufacturers enables them to play a more critical role than OEMs in leading technological innovation in many segments.

  ADAS, connected vehicles and electric energy are key technologies within the automotive electronics segments, which promise growth potential and influence the automotive industry chain. ADAS are passive and active safety systems designed to remove the human error component when operating vehicle, using advanced technologies to improve drivers' performance. ADAS uses a combination of sensor

technologies to perceive the world around the vehicle, and then provide information to the driver or take action when necessary.

EMS firms that can undertake the necessary investments to improve, upgrade and enhance their manufacturing capabilities in order to produce advanced automotive electronics in line with technological developments, allowing automotive brand owners to focus on their core business activities will thereby reap the benefit of the growing market.

**Increased outsourcing and relocation of electronics manufacturing activities to Southeast Asia**

The established local ecosystem of electronics manufacturing machinery, equipment, tools and supplies, growing demand for final electronic products, availability of local talents, and lower operating costs are key factors for global electronics, brand owners and foundries to relocate and outsource their operations in the region.

The United States-China trade war, which started in 2018, caused the imposition of tariffs and trade barriers on products/services originating from companies based in both countries. This has restricted trading activities between the United States and China, thus benefiting countries in Southeast Asia as global electronics, brand owners and foundries began to shift their production from China to Southeast Asia or purchase more electronics and semiconductor products from this region in order to circumvent these tariffs.

Further, Malaysia's Ministry of International Trade and Industry ("**MITI**") has also been proactively been positioning Malaysia as a viable automotive hub by providing strong government policy support focusing on higher-value automotive components as a well-established electrical and electronics ("**E&E**") industry through the National Automotive Policy ("**NAP**"). This has been the catalyst in attracting automotive manufacturers to consider Malaysia as their regional base comparable to Indonesia and Thailand.

**Government initiatives to support the automotive industry**

- **NAP 2020**

  The NAP 2020 which was launched in February 2020, is an enhancement of the NAP 2014 that focused on developing Malaysia as the hub for energy-efficient vehicles (EEV) through the development of R&D capabilities for right-hand drive vehicles, and related technologies such as fuel efficiency, light material, telematics, tooling and component design. The NAP 2020 aims to enhance the automotive industry in the era of digital industrial transformation by focusing on next-generation vehicles (NxGV), Industrial Revolution 4.0 ("**IR 4.0**"), and mobility-as-a-service ("**MaaS**") to make Malaysia a regional leader in manufacturing, engineering and technology.

  NAP 2020 also presents roadmaps and blueprints for seven areas, outlining the initiatives and strategies on the automotive and mobility value chain, technology, talent, MaaS, robotics, IoT, and the aftermarket. Among the targets to be achieved by 2030 under NAP 2020 are automotive sector gross domestic product (GDP) contribution of RM104.2 billion; total production volume of 1.47 million vehicle units; RM12.3 billion in complete built-up ("**CBU**") exports; RM28.3 billion in exports of new automotive parts and components; technology development through the establishment of full-fledged vehicle type approval testing centres, electric vehicle interoperability centres, autonomous/automatic vehicle testbeds, virtual design centres, additive manufacturing design centres, robotics and artificial intelligence centres, big data analytics centres, digital twin-centres; and technology academies.

- **IR 4.0**

  In October 2018, MITI launched the National Policy on Industry 4.0 ("**Industry4WRD**") to drive digital transformation of the manufacturing industry and its related services, with the goals to raise labour productivity, increase the manufacturing industry's contribution to the economy, boost innovation and increase the number of high skilled workforce.

  The policy then initiated an Industry4WRD Readiness Assessment programme. which was designed to facilitate small and medium enterprises ("**SMEs**") assess their capabilities and readiness to adopt Industry 4.0 technologies and processes as well as identify areas for improvement, helped these SMEs to develop feasible strategies to perform outcome-based intervention projects that aligned with the country's aspirations to be a developed country.

  Under Budget 2019, the Government introduced the Industry4WRD Intervention Fund offering financial support to SMEs in the manufacturing and related services sectors who have completed the Industry4WRD Readiness Assessment programme on a matching grant basis (70:30) of up to RM500,000. In addition, RM1.0 billion has been allocated to the Industry4WRD Domestic Investment Strategic Fund (DISF) to accelerate the shift of Malaysian-owned companies in targeted industries to high value-added, high technology, knowledge-intensive and innovation-based industries. In doing so, the

Government aims to improve domestic investment to complement foreign direct investment, to ensure sustainable economic growth. Manufacturing companies which have undertaken the Industry4WRD Readiness Assessment programme are eligible to apply for the matching grant (60:40) based on a reimbursable basis, for research and development activities, training activities, modernisation and upgrading of facilities and equipment, licensing or purchase of technology and obtaining international standards or certifications.

- **Free trade arrangements ("FTAs") and bilateral trade agreement**

  Furthermore, FTAs and the bilateral trade agreement are also expected to boost manufacturing activities in Malaysia, including electronics manufacturing activities for automotive electronics. To date, Malaysia has implemented seven bilateral FTAs and seven regional FTAs. The seven bilateral FTAs are the Malaysia-Japan Economic Partnership Agreement, Malaysia-Pakistan Closer Economic Partnership Agreement, Malaysia-New Zealand Free Trade Agreement, Malaysia-India Comprehensive Economic Cooperation Agreement, Malaysia-Chile Free Trade Agreement, Malaysia-Australia Free Trade Agreement and Malaysia-Turkey Free Trade Agreement. The seven regional FTAs that have been implemented are the ASEAN FTA, ASEAN-China FTA, ASEAN-Korea FTA, ASEAN-Japan Comprehensive Economic Partnership, ASEAN-Australia-New Zealand FTA, ASEAN-India FTA and ASEAN-Hong Kong FTA. Further, Malaysia is currently undertaking four FTA negotiations, namely the Malaysia-European Free Trade Area Economic Partnership Agreement, Trans-Pacific Partnership Agreement, Trade Preferential System-Organisation of Islamic Conference and Developing Eight Preferential Tariff Agreement. These FTAs benefit exporters in Malaysia with better market access, cost savings from eliminating or reducing customs duties from mutual recognition agreements, trade facilitating customs procedures and removal of onerous regulations.

  On 18 March 2022, the Regional Comprehensive Economic Partnership ("**RCEP**") agreement came into force for Malaysia. The RCEP, signed by Malaysia, Brunei, Singapore, Vietnam, Cambodia, Indonesia, Laos, Myanmar, the Philippines, Thailand, China, South Korea, Australia, Japan and New Zealand, is deemed as the largest FTA globally. The RCEP is expected to benefit Malaysian companies by offering market access to a third of world's population where intra-regional sourcing of raw materials at competitive price; integrating supply chain within the RCEP region; Promoting greater transparency, information sharing, trade facilitation, economic cooperation, standardisation of international rules relating to electronic commerce (e-commerce); mutually recognising international standards, technical regulations trade; and providing clarity in protection of intellectual property rights.[4]

  Collectively, these trade agreements will have a positive effect on Malaysia's exports of electronics due to the increased trade facilitation potential and is expected to drive further demand for EMS in view of the market opportunities arising from the relocation of electronics brand owners to Malaysia.

## 1.4 INDUSTRY DYNAMICS

### *1.4.1 Supply conditions*

**Raw materials**

Critical aspects involving raw materials in the manufacture of automotive electronics include selection of appropriate materials that meet quality specifications, suitable suppliers from which such materials can be reliably sourced and delivered cost-effectively, and ensuring adequate inventory levels.

The raw materials involved in the manufacture of automotive electronics include, but are not limited to, semiconductors, PCBs, various precious metals, metals and alloys, polycarbonates, as well as rubber-based materials. These materials play various roles in final electronic products of various automotive electronics, and are used to produce electronic components and parts, casings and enclosures within which electronic components are housed. It is integral that materials sourced for these purposes fulfil specific quality criteria and functionality to fulfil their designated functions within the finished product. As such, the supply chain of raw materials for the manufacture of automotive electronics is a critical factor in the production process.

There was a shortage of semiconductors that started approximately in the second quarter of 2020 and continued into the second quarter of 2021. This was mainly due to the increase in demand for electronic products caused by the COVID-19 pandemic as well as the increased use of semiconductors in automobiles.

The shortage of semiconductors has also impacted the automotive market and affected production activities. While the automakers understandably reduced production and chip purchases amidst the spread of COVID-19 globally, the demand for automotive semiconductors increased in the fourth quarter of 2020. The increase in demand for semiconductors was evidenced by the sales of global semiconductors which grew by 6.8% in

[4] MITI

2020.

EMS firms that can secure a steady and reliable supply of raw materials that meet the required quality standards in a cost-effective and timely manner are able to remain sustainable and competitive in the longer term.

**Machinery and equipment**

Technological progress has allowed for the mechanisation and automation of several functions and processes across the production line in EMS. It has enabled the development of specific machinery that perform certain tasks beyond human capabilities. These machinery allow manufacturers to undertake more demanding tasks in the manufacturing of automotive electronics that require a greater degree of precision, scale and cost-efficiency.

With the rapid pace of technological advancement and an increasingly demanding automotive electronics market, product development of automotive electronics has advanced, leading to the incorporation of innovative functionalities and the adoption of more specialised techniques with greater precision in the manufacturing process. In order to cope with increased demands, EMS firms have to carry out precision manufacturing on a larger scale.

Identifying appropriate and reliable machinery as well as reputable machinery suppliers will allow EMS firms to equip their production factories with proper machinery to produce at consistent quality and output. In addition, securing the proper machinery to expand functionality and maintain cost efficiency is critical for automotive EMS firms to remain competitive in the evolving automotive electronics marketplace.

**Funding capital**

EMS is a capital-intensive business with increasing demand for technology upgrades and capacity expansions. To remain competitive, EMS firms must be able to meet customer demands from both technical and economic perspective and offer an expanded range of competitively priced services to attract and retain customers. Therefore, the availability of adequate funding enables EMS firms the flexibility to expand their production capacity and product range in a timely manner for business growth.

A certain degree of capital investment will also be required for EMS firms to expand their services at competitive cost levels. This includes, but is not limited to, the acquisition of new technology, acquisition or additional machinery, acquisition and development of additional factory floor space and infrastructure, as well as additional manpower to support their business strategy. The majority of contract EMS manufacturers are using revolving lines of credit to fund manufacturing operations and may depend on external funding should internal funds be deemed insufficient.

### *1.4.2 Product/service substitution and reliance and vulnerability to imports*

EMS rendered by third party EMS firms may also be carried out in-house by brand owners themselves.

Nonetheless, it is an industry norm for automotive marques to adopt and rely on third-party EMS firms for contract manufacturing services in the automotive industry due to the value that these EMS firms contribute to the automotive industry value chain. With cost reduction being the primary factor, various other factors also drive brand owners to seek the services of third party EMS firms, such as:

- As a second manufacturing resource that can absorb some or all of the fluctuations in the demand cycle;
- reduction of working capital for the brand owner;
- immediate availability of trained and experienced staff;
- shortened time in acquiring new technologies;
- optimisation of yield and rework costs;
- ability to offer after-sales and warranty services;
- ability to work with design, pre-production and other services which may be in short supply in-house;
- an experienced supply chain management; and
- a reduction in business risk with capital tied up in plant and equipment.

Thus, EMS firms play a key role in the automotive industry value chain and automotive brand owners will continue to leverage on third party EMS firms for automotive electronics.

The E&E industry is a key economic contributor for Malaysia, both manufacturing and external trade perspectives. At present, Malaysia's ability to develop talent and resources with technical capabilities and skills to undertake activities in various segments of the electronics and semiconductor value chain segments has led to a strong foundation for its E&E industry, thereby reducing the nation's reliance and vulnerability to imports.

The development of the E&E industry in Malaysia has transformed the country into a reputable producer and assembler of E&E components and parts globally. This has led to continuous demand for Malaysia's E&E products from various end-user industries such as consumer electronics, telecommunications, and automotive for domestic and export markets. In light of this, Malaysia's exports of E&E products grew from RM287.8 billion in 2016 to RM455.7 billion in 2021 at a CAGR of 9.6%. According to the Malaysia External Trade Development Corporation (MATRADE), Malaysia's E&E exports are expected to continue performing well in 2022 despite the ongoing pandemic and global chip shortage supply risks. Malaysia's E&E trade performance continued its upward momentum in January and February 2022, with exports increasing by 19.6% year-on-year to RM85.0 billion compared with the corresponding period in 2021.[5] The E&E industry will continue to be a key growth driver for Malaysia's economy in 2022.

### 1.5 COMPETITIVE LANDSCAPE

The EMS industry in Malaysia consists of diversified EMS firms producing a wide range of products from electronic components, modules, devices and up to systems across various industries. The industry players range from local small and medium-sized enterprises to large scale local corporations and multinational corporations.

While the EMS industry is competitive, there are barriers to entry that can restrict the entry of new firms, among which include:

- **Capital intensive industry**

  The EMS industry is capital intensive as initial investments are required to secure manufacturing space, machinery and equipment, as well as raw materials for manufacturing activities;
- **Strong technical skills**

  Industry players in the EMS industry require a certain degree of technical competence and know-how to deliver tailored solutions to brand owners;
- **Ability to invest in and undertake R&D**

  EMS industry players that are able to invest in product development and undertake R&D activities are better positioned to collaborate with and support the development needs of automotive marques;
- **Complex business model built on strong supply chain network**

  EMS industry players rely on a complex supply chain network to fulfil the requirements of brand owners, and deliver services that meet service level agreement parameters throughout the design, procurement, manufacturing and delivery activities;
- **Product and quality certification**

  Products manufactured by EMS industry players must adhere to country and/or region-specific quality certifications and licenses. EMS industry players must undergo quality certification audits that require rigorous testing procedures to ensure manufactured products operate within predetermined parameters.

In 2021, Betamek Berhad supplied 120,335 vehicle infotainment systems[6, 7] to the PERODUA range of passenger vehicles. In 2021, the total sales of passenger and commercial vehicles in Malaysia was 508,911 units. When compared to the total sales of passenger and commercial vehicles in Malaysia, Betamek Berhad secured a market share of 23.6% in 2021. In 2021, the sales of passenger vehicles in Malaysia totalled 452,663 units. When compared to total passenger vehicle sales in Malaysia, Betamek Berhad secured a market share of 26.6% in 2021. Further in 2021, a total of 190,291 units of PERODUA vehicles were sold in Malaysia.[8] Thus, in this respect, Betamek Berhad supplied to 63.2% of PEDODUA vehicles sold in Malaysia in 2021.

[5] E&E exports seen to perform well in 2022, The Star, 30 March 2022
[6] For the period of January to December 2021, as automotive brand sales data published by the Malaysian Automotive Association is based on calendar year
[7] One unit of vehicle infotainment system is installed in one PERODUA vehicle
[8] Malaysian Automotive Association

## 8. IMR REPORT *(Cont'd)*



**Financial performance of selected EMS firms that are involved in automotive electronics**

The following sets out the latest available revenues of private and public listed EMS firms in Malaysia that are involved in the assembly, packaging and testing of automotive electronics. The private and public listed EMS firms listed below are ranked based on Group revenue.

| Industry player | Business activities and product range [d] | Latest available financial year ended | Group revenue (RM) | Gross profit (RM) | Gross profit margin (%) | Profit before tax (RM) | Profit before tax margin (%) | Profit after tax (RM) | Profit after tax margin (%) |
|---|---|---|---|---|---|---|---|---|---|
| ATA IMS Berhad [a, c] | EMS ranging from design and engineering, supply chain management, mould design and fabrication, plastic injection moulding to box build assembly. Produces precision component parts for the automotive industry, vacuum cleaners, air purifiers and fans with heating function, liquid crystal display (LCD) screen and Wi-Fi connectivity, high efficiency particulate air (HEPA) filters, LED lighting, IoT devices and medical devices | 31 March 2022 | 2,602,120,000 | 83,783,000 | 3.2 | -13,563,000 | -0.5 | -12,151,000 | -0.5 |
| V.S. Industry Berhad [a, c] | EMS ranging from plastic injection mould design and fabrication, PCBA, automated assembly, packaging and logistics. Produces E&E components and products, plastic moulded components and parts, driver safety products, screen fabric printing components and filter components | 31 July 2021 | 4,002,281,000 | 527,239,000 | 13.2 | 329,130,000 | 8.2 | 241,617,000 | 6.0 |
| Robert Bosch (Malaysia) Sdn Bhd [c] | Provision of solutions for mobility, industrial technology, consumer goods and energy and building technology. Mobility solutions include powertrain solutions, chassis systems control, electrical drives, automotive electronics and automotive steering solutions | 31 December 2021 | 1,821,421,166 | 123,706,981 | 6.8 | 34,453,223 | 1.9 | 28,397,743 | 1.6 |
| EG Industries Berhad [a, c] | EMS for computer peripherals, consumer electronics / electrical products as well as automotive industrial products, and production of high filtration face masks | 30 June 2021 | 1,055,521,000 | 43,341,000 | 4.1 | 14,197,000 | 1.3 | 13,965,000 | 1.3 |

## 8. IMR REPORT *(Cont'd)*

PROVIDENCE STRATEGIC PARTNERS

| Industry player | Business activities and product range [d] | Latest available financial year ended | Group revenue (RM) | Gross profit (RM) | Gross profit margin (%) | Profit before tax (RM) | Profit before tax margin (%) | Profit after tax (RM) | Profit after tax margin (%) |
|---|---|---|---|---|---|---|---|---|---|
| Continental Automotive Components Malaysia Sdn Bhd | Manufacturing of electronic components such as antennas, switches, and waveguides | 31 December 2020 | 484,479,399 | [redacted] | [redacted] | 13,627,915 | 2.8 | 10,640,863 | 2.2 |
| Hotayi Electronic (M) Sdn Bhd [c] | EMS for automotive, consumer, storage devices, commercial, public safety and industrial end user markets. Produces PCBA. | 31 December 2021 | 419,017,204 | 75,080,519 | 17.9 | 49,396,032 | 11.8 | 40,313,217 | 9.6 |
| Clarion (Malaysia) Sendirian Berhad | Produces multimedia / navigation units, audio units, rear vision cameras, speakers / amplifiers / subwoofers, wireless chargers, cameras, monitors, safe driving support systems and related accessories for the automotive industry | 31 December 2021 | 182,962,187 | 8,451,115 | 4.6 | -4,093,973 | -2.2 | -3,590,193 | -2.0 |
| Betamek Berhad [b] | EMS specialising in the manufacturing and sales of customised electronics and components for the automotive industry. Produces vehicle audio products and components comprising radios, car multimedia players and audio accessories; and vehicle accessories such as air conditioning control panels, mirror switches, power sockets, reverse cameras and other car accessories | 31 March 2022 | 133,051,000 | 24,530,000 | 18.4 | 17,316,000 | 13.0 | 13,472,000 | 10.1 |
| MCE Holdings Berhad [a, c] | EMS ranging from design, manufacture and supply of automotive electronics and mechatronics parts. Produces ultrasonic parking sensor systems, functional instrument panel switches, window lifter systems, lighting systems, camera systems, plastic products and accessories for the automotive industry | 31 July 2021 | 84,824,501 | [redacted] | [redacted] | -760,087 | -0.9 | -834,870 | -1.0 |
| Wheels Electronics Manufacturing Sdn Bhd | Manufacturing of automobile and home security systems, including alarm, central locking, power window, car infotainment, automotive sunshade, home security, automatic gate and access entry systems | 31 December 2020 | 41,425,805 | [redacted] | [redacted] | 283,088 | 0.7 | 18,489 | - |

## 8. IMR REPORT *(Cont'd)*

PROVIDENCE STRATEGIC PARTNERS

| Industry player | Business activities and product range [d] | Latest available financial year ended | Group revenue (RM) | Gross profit (RM) | Gross profit margin (%) | Profit before tax (RM) | Profit before tax margin (%) | Profit after tax (RM) | Profit after tax margin (%) |
|---|---|---|---|---|---|---|---|---|---|
| Delloyd Electronics (M) Sdn Bhd | Manufacturer of original equipment parts and accessories such as door mirrors, inner mirrors, bumpers, door trims, pillar trims, door handles, sunvisors, latches, complete seats and components of passenger cars and commercial vehicles, E&E automotive parts and components including side turn signals, power window regulators, lamps, switches, ADAS and other automotive electronics products | 31 March 2021 | 35,747,977 | 4,821,694 | 13.5 | 3,825,858 | 10.7 | 3,819,880 | 10.7 |
| Vision Automotive Technology (Malaysia) Sdn Bhd | Design, development and supply of automotive electronic products, including vehicle security systems and accessories. Produces tire pressure monitoring systems, rearview mirrors, blindspot detection systems, vehicle camera system and digital video disc (DVD) systems | 30 June 2021 | 2,398,311 | 641,505 | 26.7 | 45,852 | 1.9 | 15,291 | 0.6 |
| D3 Innovation (M) Sdn Bhd | EMS ranging from electronics and mechanical design, box assembly and PCBA for the telecommunications, automotive, healthcare, lighting, home appliances, energy, industrial and building, transportation, smart home, gaming, security and networking industries | 28 February 2021 | 566,944 | 68,546 | 7.2 | 1,479 | 4.5 | -43 | - |

Notes:
[a] Listed on the Main Market of Bursa Malaysia Securities Berhad
[b] Comprises revenue for automotive electronics EMS
[c] Includes revenue derived from non-automotive electronics EMS as segmental revenue is not publicly available from the annual reports of the identified public listed companies and audited financial statements of the identified private companies
[d] Save for Betamek Berhad, based on public information sourced from the annual reports and websites of identified industry players
Latest available as at 2 September 2022
Source: Various annual reports, company websites, Companies Commission of Malaysia, PROVIDENCE analysis

# 2 AUTOMOTIVE INDUSTRY IN MALAYSIA

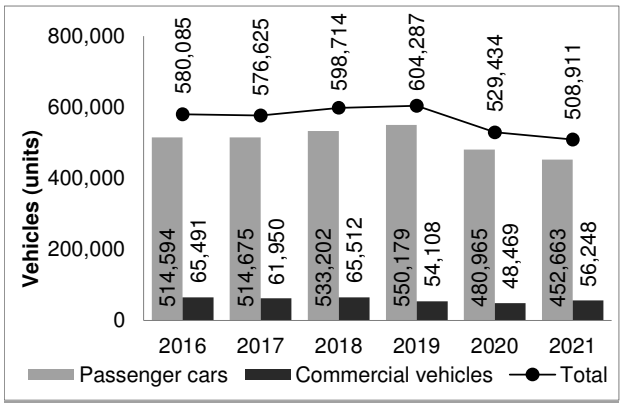
Malaysia's automotive industry began in 1967 when Volvo Cars established an assembly plant in Shah Alam, Selangor. In 1984, PROTON was set up as a national car project to spur industrialisation. PERODUA was established in 1992 as the second national car brand to assemble mini and supermini cars. The automotive industry ecosystem in Malaysia is fairly established with approximately 27 vehicle manufacturers/assemblers and more than 600 suppliers/component manufacturers from various clusters, including metals, plastics, E&E as well as rubber. These component manufacturers supply components to vehicle assemblers.

The rising trend and growing preference towards outsourcing production has enabled automotive OEMs and brand owners to focus on their core competencies (such as research and development, brand building, and marketing and sales). By using the services of EMS firms, automotive OEMs and brand owners can gain access to design and engineering capabilities, process knowledge and manufacturing know-how without having to incur substantial capital investments.

Automotive sales in Malaysia rose from 580,085 units in 2016 to 604,287 units in 2019 at a CAGR of 1.4%. This growth was underpinned by increased economic activity and trade flows. In 2020 and 2021, automotive sales were adversely affected by various restrictions imposed by the Government of Malaysia to curb the spread of COVID-19. As a result, automotive sales dropped to 529,434 units in 2020 and 508,911 units in 2021.

National automotive marques, PROTON and PERODUA, collectively commanded 59.9% share of automotive sales in 2021. In comparison, approximately 40 other non-national marques collectively accounted for the remaining 40.1% of automotive sales in 2021.

**New passenger and commercial vehicles registered in Malaysia**




Source: Malaysian Automotive Association, PROVIDENCE analysis

**Sales volume of top automotive brands in Malaysia**

| 2019 | |
|---|---|
| **Brand** | **Sales (units)** |
| PERODUA | 240,341 |
| PROTON | 100,183 |
| Honda | 85,418 |
| Toyota | 69,091 |
| Others [a] | 109,254 |
| **Total** | **604,287** |

| 2020 | |
|---|---|
| **Brand** | **Sales (units)** |
| PERODUA | 220,163 |
| PROTON | 108,524 |
| Honda | 60,468 |
| Toyota | 58,501 |
| Others [a] | 81,778 |
| **Total** | **529,434** |

| 2021 | |
|---|---|
| **Brand** | **Sales (units)** |
| PERODUA | 190,291 |
| PROTON | 114,672 |
| Honda | 53,031 |
| Toyota | 72,394 |
| Others [a] | 78,523 |
| **Total** | **508,911** |

Notes:

[a] Other passenger and commercial vehicle brands, namely Nissan, Mazda, Mitsubishi, BMW, Isuzu, Ford, Hino, Volkswagen, Volvo, Fuso, Daihatsu, Hyundai, Mercedes, Subaru, Peugeot, MINI, Renault, Lexus, KIA, UD Trucks, Porsche, CAM, Volvo Trucks, Sinotruk, Scania, Land Rover, Bison, Chana, Foton, TATA, MAN, King Long, CAMC, JAC, JMC, Jaguar, Auman, Bei Ben, JBC, BAW and Chevrolet

Source: Malaysian Automotive Association, PROTON Holdings Berhad, PROVIDENCE analysis

The Malaysian Automotive Association forecasts that total sales of vehicles would reach 600,000 units in 2022 (comprising 540,000 passenger vehicles and 60,000 commercial vehicles). The sales tax exemption incentive for passenger vehicles which was extended until 30 June 2022 and the ramping up of production and deliveries by automotive companies to fulfil backlog and new orders will be among the main contributors to improving sales. Consumer spending is also expected to revive with Malaysia's recovery. The introduction of new models including electric vehicles at more competitive prices, promotional campaigns to push sales would also support in sustaining buying interest. However, the automotive sector may continue to face pandemic-related challenges, supply chain issues, semiconductor chips shortage and rising freight costs, which may affect the country's growth momentum and impact new vehicle sales. Nonetheless, it is unlikely that these disruptions will cause major upheavals, given that the authorities have had experience in handling the COVID-19 crisis over the past two years.

In April 2022, PERODUA announced an annual sales target of 247,000 vehicles for 2022, after achieving sales of only 190,291 vehicles in 2021. PERODUA recorded 61,624 vehicles registered in the first quarter of 2022, an increase of 6.4% from the 57,909 vehicles sold in the first quarter of 2021. The increase in sales was attributed to PERODUA's work with its suppliers and dealers to lessen their impact of the COVID-19 situation and component supply issues.[9]

The announcement on economic relaxation measures, including the reopening of non-essential manufacturing sectors including automotive and component plants starting 16 August 2021, was a positive development for the automotive sector.

The expectation of global and Malaysia's economic recovery, the continuation of the sales tax exemption incentive for passenger vehicles under the National Economic Recovery Plan ("**PENJANA**") package, and lower hire purchase loan interest rates would help to spur automotive sales. Under the PENJANA package, the Government announced a sales tax exemption of up to 100% for completely-knocked down (CKD) passenger vehicles and 50% for on CBU passenger vehicles. The sales tax exemption incentive for passenger vehicles under the PENJANA package which initially commenced for the period between 15 June 2020 to 31 December 2020 was subsequently extended to 30 June 2022. The introduction of new automotive models with the latest additional specifications, design styles and competitive pricing would also assist in sustaining buying interest.

MITI's introduction of NAP 2020 in April 2020 will focus on ensuring that the domestic industry continues to be competitive by enhancing current policy measures and introducing new advanced technology elements namely next generation vehicle, mobility as a service and IR 4.0. The NAP 2020 will continue to promote the participation of local companies in the domestic and global supply chain, encourage research and development and engineering activities, build capabilities and capacity of local workforce, support national car projects as well as enhance exports, investments and local production volume.[10] The focus areas of the NAP 2020 are autonomous vehicles, electrification, big data analytics, IoT, artificial intelligence and alternative fuel powertrains, which bring new facets to and are transforming vehicle development. These focus areas build upon the automotive, mobility and connected technology pillars which are increasingly essential in supporting the advancement of vehicles.

The Government is supportive of the development of the next generation of automotive technology and products, as depicted by the extension and enhancement of incentives for the automotive industry. From 2014 to date, the Government, through MIDA, had evaluated and approved tax incentives for 13 automotive projects with investments totalling approximately RM4.6 billion. The Government reaffirmed the need to add and redefine the list of promoted products and services related to the automotive industry as well as to review the stringent requirements and stipulated conditions for projects approved with the incentive. The new extended incentive's main objective is to promote investments in energy-efficient vehicles, an additional scope of activities is now qualified for the automotive industry incentive. This encompasses a range of high technology and high value products including next-generation vehicle (NxGV), electric vehicles and related components as well as core and critical parts such as engines, powertrains, light detection and ranging (LIDAR), radio detection and ranging (RADAR) and ADAS. Due to the complexities of the automotive industry structure across its value chain, the Government has reviewed the value-added criteria requirement as part of this enhanced incentive scheme.[11]

The enhanced incentive is anticipated to encourage more homegrown companies to explore and venture into new high technology and high value-added products while strengthening their supply chain in the region. The automotive industry in ASEAN is evolving with nations striving to attract investments, particularly in the area of electric vehicles. Thus, the new incentive is timely and envisioned to support positioning Malaysia as a strategic investment destination for automotive industry players worldwide and a hub for energy-efficient vehicles. This will also allow Malaysia to benefit from the spillover effects from such investments, such as high value jobs, increase in R&D activities as well as the transfer of technology and knowledge to the local industry ecosystems.

In 2021, Malaysia's automotive industry saw 36 approved projects with investments worth RM1.9 billion. Domestic investment comprised 42.1% (RM0.8 billion) of investments, with foreign investment comprising the remaining 57.9% (RM1.1 billion). During the year, Malaysia secured seven investment projects related to the manufacturing and assembly of electric vehicles and their components. These projects brought in investments worth RM1.2 billion.[12]

[9] Perodua maintains 247,000 sales target for 2022, hopes for SST exemption extension, New Straits Times, 12 April 2022
[10] NAP 2020, MITI
[11] MIDA
[12] Malaysia Investment Performance Report 2021, MIDA

## 9. RISK FACTORS

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

### 9.1 RISKS RELATING TO OUR BUSINESS AND OUR OPERATIONS

#### 9.1.1 We are significantly dependent on the PERODUA Group

Our top 5 major customers for FYE 2019, 2020, 2021 and 2022 contributed to almost all of our revenue, as set out in the table below:

| | Length of relationship | FYE 2019 % | FYE 2020 % | FYE 2021 % | FYE 2022 % |
|---|---|---|---|---|---|
| Perodua Manufacturing | 28 years | 70.2 | 72.4 | 67.5 | 51.4 |
| Perodua Global Manufacturing | 8 years | 19.0 | 16.1 | 19.7 | 37.6 |
| Perodua Sales | 11 years | 6.4 | 4.4 | 6.2 | 6.0 |
| HIL Industries | 5 years | 2.7 | 2.8 | 2.6 | 1.9 |
| Sipro Plastic | 7 years | 0.9 | 2.5 | 2.4 | 1.6 |
| | | **99.3** | **98.3** | **98.3** | **98.5** |

Perodua Manufacturing, Perodua Global Manufacturing and Perodua Sales are part of the PERODUA Group. In addition, we procure, manufacture, sub-assemble and supply air conditioning control panels and reverse cameras to HIL Industries and Sipro Plastic, where the subassemblies will go through further assembly. HIL Industries and Sipro Plastic will subsequently supply the finished products to PERODUA Group for vehicle assembly. From this perspective, our business operations are significantly dependent on the PERODUA Group.

Additionally, we have other customers who are also the suppliers of PERODUA Group. These customers contributed to RM0.9 million (0.7%), RM0.9 million (0.7%), RM0.9 million (0.7%) and RM0.7 million (0.5%) of our total sales for FYE 2019 to 2022 respectively. In this respect, we are significantly dependent, directly or indirectly through our other customers, on PERODUA Group as we derive from 99.0% to 100.0% of our total revenue from PERODUA Group for FYE 2019 to 2022.

In addition, as an EMS provider, our business is tied to that of our PERODUA Group's business and the industry they operate in. As we have no control over the business operations, prospects and success of our PERODUA Group's business, our financial performance may be adversely affected if their manufacturing facilities located at Sungai Choh, Rawang are disrupted, if they lose market share, experience interruptions, financial difficulty or if, they face economic downturn which affects demand for their products or services.

The loss of PERODUA Group, if not replaced in a timely manner, will adversely affect our business, financial condition, results of operations and prospects. Additional information on our major customers is set out in Section 7.19.

#### 9.1.2 We are dependent on adequate supply of input materials at competitive prices

Our manufacturing operations are dependent on input materials used in our business, including discrete components such as semiconductor components and ICs, as well as electronic, mechanical and related parts such as connectors, electromechanical components, acoustic parts, cables and wires. We source input materials from Malaysia as well as foreign countries. Our imported input materials accounted for 71.3%, 68.4%, 69.8% and 74.8% of our purchases of input materials for FYE 2019, FYE 2020, FYE 2021 and FYE 2022.

## 9. RISK FACTORS *(Cont'd)*

Particularly, for FYE 2019 to 2022, our purchases of ICs make up the largest portion of our purchases of imported input materials, accounting for 51.0%, 39.5%, 43.8% and 46.0% for FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively. Our purchases of plastic parts and metal parts, which we source locally, are categorised under other components and related parts. They collectively accounted for 11.4%, 12.9%, 10.9% and 8.8% of our purchases of input materials FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively. The prices of these input materials may be influenced by factors that are beyond our control, including market supply and demand for these input materials, geographical political stability and changing political environments in the regions where we make procurements.

While our Group is not dependent on any single supplier, any serious and prolonged global shortage of such input materials may lead to loss of business opportunities and delays in our production that may adversely affect our profits as well as dampen our growth. Further, our cost of production is dependent on the cost of input materials used, which in turn is dependent on the prevailing price trends in the market and vary between industries. Prices of input materials used may be affected by numerous factors such as macroeconomic and microeconomic factors, disasters, riots, war or outbreak of epidemics or pandemics.

For FYE 2021, we faced some delays in obtaining certain input materials such as semiconductors from our suppliers as there were disruptions in the global supply chain. While this did not affect our delivery of finished products to customers historically, we cannot assure you that any future disruptions in the global supply chain of these input materials will not have an adverse effect on our future business, financial condition and results of operations.

We are responsible for sourcing and procuring input materials used for the manufacturing of our products based on production forecasts that our customers share with us. We may be exposed to price fluctuations in the cost of the input materials due to unavoidable time lag between the time of our commitment to our customers and our subsequent purchase of such input materials.

We generally do not maintain long-term supply agreements with major suppliers or maintain large quantities of inventories of input materials. Instead, we purchase most of these input materials on a purchase order basis. We also have not entered into any input material hedging arrangements. If the prices of input materials increase significantly or suddenly in the future and we are unable to secure supply of these parts at satisfactory prices or unable to pass increased costs in a timely manner to our customers, our profitability and hence financial performance may be adversely affected.

For reference, the price of ICs increased by an average of 1.1%, 12.3% and 61.8% year-on-year from FYE 2019 to FYE 2020, FYE 2020 to FYE 2021 and FYE 2021 to FYE 2022 respectively. The significant increase in the average price of ICs in FYE 2022 of 61.8% was due to global supply shortage of semiconductors, which are expected to affect our profit margins for FYE 2022.

Historically, our Group has been able to pass on significant price increases in input materials to PERODUA Group. However, due to the global supply disruption and higher demand, we were exposed to price fluctuations in the direct materials. To pass on the cost to our customers, we need to negotiate with our major customers for the price adjustments on the back of higher direct material cost caused by the supply disruption. Our selling price may be adjusted upwards upon agreement with our major customers. Pending such negotiation to be finalised, our Group will continue to be exposed to price fluctuations.

Although our Group has historically been able to pass on the increase in cost, we may not be able to mitigate the full extent of the price increase. Moving forward, we may not be able to pass on the increase in the costs of input materials to our customers, in a timely manner or at all, or avoid adverse impact on our profit margin if there is a significant increase in our input material prices.

## 9. RISK FACTORS *(Cont'd)*

Moreover, the price adjustment mechanisms that are in place with certain of our customers are subject to certain conditions, which may further restrict our ability to pass the increased costs on them. In addition, the implementation of the price adjustment provisions requires our staff to closely monitor the prices of input materials and currency exchange rates. We may not have adequate resources to monitor the currency exchange rates and the impacted prices at all times. In such instances, our results of operations and financial condition may be materially and adversely affected.

### 9.1.3 We are subject to operational risks which may cause interruptions to our business operations

Operational risks including, but not limited to, fire outbreaks, floods, landslides and disruptions of electricity supply at our manufacturing facility may cause interruptions to our business operations. As at LPD, we have not faced any such instances that have materially affected our operations.

Nonetheless, any prolonged disruptions may affect our production schedules and will affect the timely delivery of our products to our customers, which may consequently affect our results of operations, financial condition and reputation.

### 9.1.4 We may face a shortage of labour for our factory operations

We require semi-skilled operators for our operations. Hence, we depend on a stable work force to ensure that our operations are not interrupted, particularly in periods of high demand. Our production labour costs accounted for approximately 11.6%, 11.4%, 13.2% and 10.6% of our cost of sales for FYE 2019, FYE 2020, FYE 2021 as well as FYE 2022, respectively.

As at LPD, we employed 392 employees, including 249 production employees, all of whom are Malaysians. In this respect, our business operations rely on Malaysian workers. In the event of insufficient workers with the requisite skills and knowhow to support our operations, our business may be materially and adversely affected.

Our staff force is required to attend on-the-job and classroom-based trainings to enhance their technical skills for various tasks as part of their training and development programmes. Consequently, this provides flexibility to our staff utilisation and mitigate the effects of staff shortages as we are able to reorganise and reallocate our staff to meet the production demand, as and when required. However, if a sizable portion of our human capital abruptly leaves our Group without any suitable and timely replacement, our business operations and results may be adversely affected.

### 9.1.5 We are dependent on our Executive Directors and key senior management

The continued success of our business is dependent, to a significant extent, on the experience, business relationships, technical expertise and industry knowhow of our Executive Directors and key senior management.

Our Executive Directors are assisted by our key senior management who also have extensive knowledge and experience in our business. Our Executive Directors and key senior management are vital for direction, leadership, business planning and development, and management of our operations, in addition to formulating and implementing strategies to drive the future of our Group.

## 9. RISK FACTORS *(Cont'd)*

Our continued and future success largely depends on our ability to hire, develop, motivate and retain qualified personnel needed to support our business operations. We continue to identify, train and develop talent pools at each level of management to fill up any key positions, as and when required. While we have put in place a management succession plan to ensure business continuity, the simultaneous loss of services of any of our Executive Directors or key senior management may adversely affect our business, financial condition and results of operations if we are unable to replace these talents in a timely and suitable manner. As such, our ability to retain and continuously attract competent and experienced key personnel is crucial for our continued success, future business growth and expansion.

### 9.1.6 We may not have adequate insurance coverage to cover the risks related to our operations

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

| Type of insurance | Sum assured (RM'000) |
|---|---|
| Burglary policy | 38,000 |
| Fire policy | 86,000 |
| Public liability | 1,000 |
| Group personal accident policy (based on 364 confirmed employees as at 31 August 2022) | 8,160 |
| Group medical insurance policy (based on 364 confirmed employees as at 31 August 2022) | 7,920 |

However, these insurance coverages are subject to exclusions and limitations of liability both in amount and with respect to the insured events. They may not necessarily cover all aspects of our operations. We are still exposed to the risk that the insurance coverage would be inadequate to cover the losses, damages or liabilities which we may incur in the course of our business operations. Therefore, there can be no assurance that all risks faced by our Group will be adequately covered by insurance and as such, any damages arising from our operations which cannot be sufficiently covered by our insurance policies may have an adverse effect on our business, financial condition and results of operations.

Further, there is no assurance that we are sufficiently insured to cover any losses, damages or liabilities that may arise in the future. For instance, we do not have insurance coverage for certain risks such as loss of sales due to political unrest or pandemic. Hence, our business may be adversely and materially affected in the event of such an occurrence where our losses and liabilities are not covered by insurance.

## 9.2 RISKS RELATING TO OUR INDUSTRY

### 9.2.1 We are subject to the demand and performance of the automotive sector

Operators in the automotive EMS industry produce a wide range of products for vehicle makers. Any downturn in the production and sales within the automotive sector will have a negative impact on the demand for automotive EMS.

Revenue from automotive electronics accounted for 100% of our revenue for FYE 2019 to 2022. Hence, any downturn and/or decline in demand for vehicles from consumers would adversely affect our business, financial condition, results of operations and prospects.

## 9. RISK FACTORS *(Cont'd)*

### 9.2.2 We operate in a technological industry

In Malaysia, the EMS industry is diverse where operators in the industry produce a wide range of products from parts and components to finished consumer, automotive and industrial products across a wide number of end-user industries. According to MIDA, the diversification in the industry had led to distinct clusters throughout Malaysia including northern, southern and central regions of Peninsular Malaysia. In Malaysia, we compete with operators including local small, medium and large sized enterprises, and large foreign multinational corporations with manufacturing facilities. We also compete globally with operators in foreign countries.

We operate in an industry where technology evolves rapidly. If we do not stay up-to-date with technological advances and be sensitive to the market trends, or if one or more of our competitors introduce products and designs that can better address customers' needs, our Group's competitiveness and therefore our Group's business, financial condition, results of operations and prospects may be adversely affected.

### 9.2.3 The EMS industry may face adverse supply conditions

From 2020 to 2022, the E&E industry was affected by the COVID-19 pandemic where the Government imposed various social, economic and movement restrictions that impacted the Malaysian economy. Globally, many countries also imposed various social, economic and movement restrictions that affected their economies and disrupted manufacturing activities, as well as disrupted the global supply chain. The widespread COVID-19 infections further affected production activities of EMS operators, their suppliers and customers. This led to a constricted supply situation for many parts and components, including automotive grade components.

A prolonged COVID-19 pandemic or occurrence of similar pandemics in the future may similarly cause, among others, disruptions in supply chain and restrictions in movements of goods and people, which would have a material adverse effect on the business, financial condition, results of operations and prospects of operators in the EMS industry.

Please refer to Section 7.10 for further details on material interruptions in our business pertaining to COVID-19.

### 9.2.4 We face competition

We operate in a competitive market and face competition. Operators within the industry will need to compete on a number of areas including, among others, meeting evolving technologies and trends requiring changes in machinery and equipment, responding to technological changes in a timely manner, continue to be cost competitive, maintain high quality of products and services, and be supported by upskilled technical personnel as well as manufacturing systems and facilities.

Some of our competitors may have more advanced technologies, greater production capacity and manpower and other resources, stronger financial strength, better established customer base, more diversified product offerings, more established brand name and market recognition. Such competitors can more promptly respond to evolving industry standards and changes in market conditions than we can. They may also have stronger bargaining power to influence market pricing, and have an advantage over us in securing the necessary key input materials at times of shortages. Intense competition will subject us to pricing pressure which may squeeze profit margins with respect to some of our products and services and reduce our revenue. If we fail to compete effectively or maintain our competitiveness in the market, our business, results of operations and prospects will be adversely affected.

## 9. RISK FACTORS *(Cont'd)*

### 9.3 RISKS RELATING TO THE INVESTMENT IN OUR SHARES

#### 9.3.1 There is no prior market for our Shares

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 9. RISK FACTORS *(Cont'd)*

### 9.4 OTHER RISKS

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

Our Promoters will collectively hold approximately 72.0% of our enlarged share capital upon Listing. Because of the size of their shareholdings, our Promoters will have significant influence on the outcome of certain matters requiring the vote of shareholders unless they are required to abstain from voting by law and/or as required by the relevant authorities.

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## 10. RELATED PARTY TRANSACTIONS

### 10.1 RELATED PARTY TRANSACTIONS

Save for the Acquisition, there were no transactions, existing and/or potential, entered or to be entered into by our Group which involve the interests, direct or indirect, of our Directors, substantial shareholders and/or persons connected with them which are material to our Group during FYE 2019 to 2022 and up to LPD.

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

**(a) Recurrent related party transactions**

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

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

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

**(b) Other related party transactions**

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

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

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

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

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

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

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

### 10.2 OTHER TRANSACTIONS

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

There were no transactions that were unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Group was a party for FYE 2019 to 2022 and up to LPD.

#### 10.2.2 Outstanding loans (including guarantees of any kind)

**(a) Outstanding loans and/or balances**

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

**(b) Guarantees**

Our Promoters, substantial shareholders and/or Director, namely Iskandar Holdings and/or Mirzan Bin Mahathir have jointly and severally provided corporate and personal guarantees for banking facilities extended by Maybank Islamic Berhad ("**Maybank**") and HSBC Amanah Malaysia Berhad ("**HSBC**") (collectively referred to as "**Financiers**") for the full amount of the facilities).

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

The details of the amount guaranteed, outstanding amount and the guarantors for the respective banking facilities as at LPD are as follows:

| Financiers | Type of Facilities | Purpose | Outstanding balance and amount guaranteed as at LPD RM'000 | Facility limit and amount guaranteed RM'000 | Guarantors |
|---|---|---|---|---|---|
| Maybank | 4 facilities comprising Islamic term financing, Islamic overdraft, promissory foreign exchange[(1)], and trade facilities | • Overdraft, promissory foreign exchange and trade facilities are for working capital.<br>• Islamic term financing is for the refinancing of the Affin term loan | 28,016 | 44,000 | Iskandar Holdings<br>Mirzan Bin Mahathir |
| HSBC | 3 facilities comprising Islamic overdraft, bank guarantee and trade facilities | Working capital | 5,639 | 25,000 | Mirzan Bin Mahathir |
| | | | **33,655** | **69,000** | |

**Note**:

(1) The purpose of the promissory foreign exchange is to facilitate foreign exchange transaction of our Group. As at LPD, the facility is not in use.

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

As at the date of this Prospectus, we have received conditional approvals from the Financiers to discharge the above guarantees by substituting the same with a corporate guarantee from our Company and/or other securities from our Group acceptable to the financial institutions. The Financiers have imposed conditions that the discharge is conditional upon the completion of the Listing and execution and perfection of a corporate guarantee by the Company.

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

### 10.2.3 Transactions entered into with M&A Securities

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

(a) Agreement dated 9 August 2021 between BESB and M&A Securities for the appointment of M&A Securities as Adviser, Sponsor, Underwriter and Placement Agent for our Listing; and

(b) Underwriting Agreement dated 13 September 2022 entered into between our Company and M&A Securities for the underwriting of 36,000,000 Issue Shares.

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## 11. CONFLICT OF INTEREST

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

As at LPD, none of our Directors and substantial shareholders has any interest, direct or indirect, in:

(a) other businesses and corporations which are carrying on a similar trade as our Group; and

(b) the business of our customers and suppliers.

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

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

(b) after deliberation with our Audit and Risk Management Committee, to make recommendations to our Board to direct the conflicted Director to:

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

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

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

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

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

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

### 11.2 DECLARATIONS OF CONFLICT OF INTEREST BY OUR ADVISERS

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

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

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

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

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## 12. FINANCIAL INFORMATION

### 12.1 HISTORICAL FINANCIAL INFORMATION

Our Company was incorporated in Malaysia under the Act as a private limited company on 7 December 2021 under the name of Betamek Sdn Bhd. Our Company was incorporated as a special purpose vehicle to facilitate the Listing. Our historical financial information throughout FYE 2019 to 2022 has been prepared in accordance with MFRS and IFRS.

Our audited combined financial statements for FYE 2019 to FYE 2022 were not subject to any audit qualifications. The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results or cash flows.

#### 12.1.1 Historical combined statements of profit or loss and other comprehensive income

The following table sets out a summary of our combined statements of profit or loss and other comprehensive income for FYE 2019 to FYE 2022. It should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set out in Section 12.2 and the Accountants' Report set out in Section 13.

| | Audited | | | |
|---|---|---|---|---|
| | **FYE 2019** | **FYE 2020** | **FYE 2021** | **FYE 2022** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Revenue | 126,542 | 130,732 | 129,869 | 133,051 |
| Cost of sales | (92,729) | (103,931) | (99,587) | (108,521) |
| **GP** | **33,813** | **26,801** | **30,282** | **24,530** |
| Other income | 857 | 292 | 1,708 | 1,086 |
| Distribution expenses | (388) | (436) | (680) | (357) |
| Administrative expenses | (5,078) | (6,512) | (5,534) | (6,054) |
| Property, plant and equipment written off | - | (4,526) | (3,830) | - |
| Other expenses | (14) | (65) | (2,646) | (977) |
| **Operation profit** | **29,190** | **15,554** | **19,300** | **18,228** |
| Finance income | 39 | 209 | 160 | 25 |
| Finance costs | (2) | (346) | (408) | (937) |
| **PBT** | **29,227** | **15,417** | **19,052** | **17,316** |
| Income tax expense | (6,275) | (4,544) | (6,844) | (3,844) |
| **PAT / Total comprehensive income** | **22,952** | **10,873** | **12,208** | **13,472** |
| EBIT[(1)] | 29,190 | 15,554 | 19,300 | 18,228 |
| EBITDA[(1)] | 31,152 | 17,613 | 21,949 | 22,143 |
| GP margin (%)[(2)] | 26.7 | 20.5 | 23.3 | 18.4 |
| PBT margin (%)[(3)] | 23.1 | 11.8 | 14.7 | 13.0 |
| PAT margin (%)[(3)] | 18.1 | 8.3 | 9.4 | 10.1 |
| Effective tax rate (%)[(4)] | 21.5 | 29.5 | 35.9 | 22.2 |
| EPS (sen)[(5)] | 5.1 | 2.4 | 2.7 | 3.0 |

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

**Notes:**

(1) EBIT and EBITDA are calculated as follows:

| | Audited | | | |
|---|---|---|---|---|
| | **FYE 2019** | **FYE 2020** | **FYE 2021** | **FYE 2022** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| PAT | 22,952 | 10,873 | 12,208 | 13,472 |
| Less: | | | | |
| Interest income | (39) | (209) | (160) | (25) |
| Add: | | | | |
| Finance costs | 2 | 346 | 408 | 937 |
| Taxation | 6,275 | 4,544 | 6,844 | 3,844 |
| **EBIT** | **29,190** | **15,554** | **19,300** | **18,228** |
| Add: | | | | |
| Depreciation and amortisation | 1,962 | 2,059 | 2,649 | 3,915 |
| **EBITDA** | **31,152** | **17,613** | **21,949** | **22,143** |

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

(3) PBT and PAT margin is computed based on PBT and PAT divided by revenue.

(4) Effective tax rate is computed based on income tax expense divided by PBT.

(5) Calculated based on our PAT divided by the enlarged share capital of 450,000,000 Shares after our IPO.

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

### 12.1.2 Historical combined statements of financial position

The following table sets out our combined statements of financial position as at 31 March 2019, 2020, 2021 and 2022. It should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set out in Section 12.2 and the Accountants' Report set out in Section 13.

| | Audited | | | |
|---|---|---|---|---|
| | As at 31 March | | | |
| | 2019 | 2020 | 2021 | 2022 |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 18,448 | 18,875 | 37,808 | 38,361 |
| Right-of-use assets | 51 | 236 | 186 | - |
| Intangible assets | - | 861 | 5,456 | 5,695 |
| Cash and bank balances, deposits and placement | 246 | 256 | 266 | - |
| **Total non-current assets** | **18,745** | **20,228** | **43,716** | **44,056** |
| **Current assets** | | | | |
| Inventories | 38,129 | 33,456 | 38,921 | 55,868 |
| Trade receivables | 14,501 | 9,199 | 17,059 | 16,533 |
| Other receivables, deposits and prepayments | 7,098 | 8,568 | 11,365 | 6,996 |
| Other investments | 2,610 | 2,545 | 162 | 136 |
| Tax recoverable | - | 293 | 266 | 1,742 |
| Cash and bank balances, deposits and placement | 10,349 | 27,434 | 14,196 | 15,881 |
| **Total current assets** | **72,687** | **81,495** | **81,969** | **97,156** |
| **TOTAL ASSETS** | **91,432** | **101,723** | **125,685** | **141,212** |
| **EQUITY AND LIABILITIES** | | | | |
| Share capital | 8,000 | 8,000 | 8,000 | 8,000 |
| Retained earnings | 68,880 | 72,752 | 78,961 | 85,433 |
| **TOTAL EQUITY** | **76,880** | **80,752** | **86,961** | **93,433** |
| **Non-current liabilities** | | | | |
| Bank borrowings | - | 10,582 | 22,137 | 19,030 |
| Lease liabilities | - | 116 | 87 | - |
| Deferred tax liabilities | 1,502 | 1,462 | 2,360 | 3,513 |
| **Total non-current liabilities** | **1,502** | **12,160** | **24,584** | **22,543** |
| **Current liabilities** | | | | |
| Trade payables | 10,223 | 5,431 | 8,696 | 8,945 |
| Other payables | 2,071 | 2,082 | 4,259 | 4,010 |
| Borrowing | - | 1,270 | 1,156 | 12,281 |
| Lease liabilities | 26 | 28 | 29 | - |
| Tax payable | 730 | - | - | - |
| **Total current liabilities** | **13,050** | **8,811** | **14,140** | **25,236** |
| **TOTAL LIABILITIES** | **14,552** | **20,971** | **38,724** | **47,779** |
| **TOTAL EQUITY AND LIABILITIES** | **91,432** | **101,723** | **125,685** | **141,212** |

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

### 12.1.3 Historical combined statements of cash flows

The following table sets out our combined statements of cash flows for FYE 2019 to FYE 2022. It should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" set out in Section 12.2 and the Accountants' Report set out in Section 13.

| | Audited | | | |
|---|---|---|---|---|
| | **FYE 2019** | **FYE 2020** | **FYE 2021** | **FYE 2022** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Cash flow from operating activities** | | | | |
| PBT | 29,227 | 15,417 | 19,052 | 17,316 |
| Adjustments for: | | | | |
| Amortisation of intangible assets | - | - | - | 952 |
| Bad debts written off | - | - | - | 8 |
| Depreciation of property, plant and equipment | 1,904 | 1,992 | 2,598 | 2,933 |
| Depreciation of right-of-use assets | 58 | 67 | 51 | 30 |
| Dividend income | (259) | (4) | (14) | (2) |
| Fair value loss on other investments | 14 | 65 | 2,383 | 25 |
| Gain on disposal of other investments | (67) | - | - | - |
| Loss/(Gain) on disposal of property, plant and equipment | 10 | (25) | (806) | (8) |
| Interest expenses | 2 | 346 | 408 | 937 |
| Interest income | (39) | (209) | (160) | (25) |
| Inventories written off | - | - | 90 | - |
| Property, plant and equipment written off | - | 4,526 | 3,830 | - |
| Waiver of debt | (1) | - | - | - |
| **Operating profit before working capital changes** | **30,849** | **22,175** | **27,432** | **22,166** |
| Changes in working capital: | | | | |
| Inventories | (22,206) | 4,673 | (5,554) | (16,947) |
| Receivables | (6,238) | 3,832 | (10,658) | 4,887 |
| Payables | 2,209 | (4,781) | 5,442 | 1 |
| Trust receipts | - | - | - | 8,151 |
| **Cash from operations** | **4,614** | **25,899** | **16,662** | **18,258** |
| Income tax paid, net of refund | (7,175) | (5,606) | (5,919) | (4,166) |
| Interest received | 32 | 199 | 150 | 19 |
| Interest paid | - | (13) | (20) | (60) |
| **Net cash (used in)/from operating activities** | **(2,529)** | **20,479** | **10,873** | **14,051** |
| **Cash flow from investing activities** | | | | |
| Dividend received | 259 | 4 | 14 | 2 |
| Purchase of other investments | (80) | - | - | - |
| Purchase of intangible assets | - | (861) | (4,595) | (1,190) |
| Purchase of property, plant and equipment | (1,145) | (7,264) | (26,887) | (3,411) |
| Purchase of right-of-use assets | - | (103) | - | - |

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

| | Audited | | | |
|---|---|---|---|---|
| | **FYE 2019** | **FYE 2020** | **FYE 2021** | **FYE 2022** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Proceeds from disposal of other investments | 147 | - | - | - |
| Proceeds from disposal of property, plant and equipment | 305 | 344 | 2,332 | 88 |
| **Net cash used in investing activities** | **(514)** | **(7,880)** | **(29,136)** | **(4,511)** |
| **Cash flow from financing activities** | | | | |
| Dividend paid | (5,500) | (7,000) | (6,000) | (7,000) |
| Drawdown of term loan | - | 12,383 | 12,327 | 15,409 |
| Drawdown of revolving credit | - | - | - | 8,041 |
| Interest arising from fixed deposits pledged | (7) | (10) | (10) | - |
| Interest received | 7 | 10 | 10 | 5 |
| Interest paid | (2) | (333) | (388) | (877) |
| (Placement)/drawdown of fixed deposit pledged | - | (85) | - | 146 |
| Repayment of lease liabilities | (31) | (33) | (28) | (116) |
| Repayment of term loans | - | (531) | (886) | (23,583) |
| **Net cash (used in)/from financing activities** | **(5,533)** | **4,401** | **5,025** | **(7,975)** |
| **Net increase in cash and cash equivalents** | **(8,576)** | **17,000** | **(13,238)** | **1,565** |
| Cash and cash equivalents at the beginning of the financial year | 18,925 | 10,349 | 27,349 | 14,111 |
| **Cash and cash equivalents at the end of the financial year** | **10,349** | **27,349** | **14,111** | **15,676** |
| **Cash and cash equivalents consist of:** | | | | |
| Deposit with financial institution | 246 | 341 | 11,351 | 476 |
| Cash and bank balances | 10,349 | 27,349 | 3,111 | 15,405 |
| | 10,595 | 27,690 | 14,462 | 15,881 |
| Less: Deposits pledged with a financial institution | (246) | (341) | (351) | (205) |
| | **10,349** | **27,349** | **14,111** | **15,676** |

**Note:**

* Negligible.

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

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

The following discussion and segmental analysis of our combined financial information for FYE 2019 to 2022 should be read in conjunction with the Accountant's Report as set out in Section 13.

#### 12.2.1 Overview of our operations

We are an EMS provider, specialising in the D&D, procurement and manufacturing as well as after-sale services in respect of the assembly and production of fully-assembled automotive electronic products. We provide the following services:

(a) design and manufacture of vehicle audio products and components comprising vehicle infotainment systems and audio video accessories (e.g. HDMI adapters, cables); and

(b) design and manufacture of vehicle accessories such as air conditioning control panels, USB chargers, mirror switches, switch clusters and power sockets.

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

### (a) Revenue

Our revenue relates to the sales of manufactured goods, which is recognised net of sales returns and discount upon the transfer of control of the goods to the customers.

**Revenue by product category**

| | Audited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | FYE 2019 | | FYE 2020 | | FYE 2021 | | FYE 2022 | |
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| **Vehicle audio and visual products** | **99,377** | **78.5** | **101,641** | **77.7** | **103,295** | **79.5** | **107,196** | **80.5** |
| Infotainment systems | 92,429 | 73.0 | 93,818 | 71.7 | 94,984 | 73.1 | 100,173 | 75.3 |
| Audio video accessories | 1,788 | 1.4 | 1,289 | 1.0 | 1,865 | 1.4 | 1,886 | 1.3 |
| Reverse cameras | 5,160 | 4.1 | 6,534 | 5.0 | 6,446 | 5.0 | 5,137 | 3.9 |
| **Vehicle accessories** | **27,165** | **21.5** | **29,091** | **22.3** | **26,574** | **20.5** | **25,855** | **19.5** |
| Air conditioning control panels | 21,062 | 16.6 | 21,962 | 16.8 | 19,722 | 15.2 | 20,585 | 15.5 |
| Mirror switches | 3,056 | 2.4 | 2,834 | 2.2 | 2,767 | 2.1 | 1,742 | 1.3 |
| USB chargers | 587 | 0.5 | 1,860 | 1.4 | 1,911 | 1.5 | 1,693 | 1.3 |
| Power sockets | 1,081 | 0.9 | 1,022 | 0.8 | 992 | 0.8 | 755 | 0.6 |
| Others[(1)] | 1,379 | 1.1 | 1,413 | 1.1 | 1,182 | 0.9 | 1,080 | 0.8 |
| | **126,542** | **100.0** | **130,732** | **100.0** | **129,869** | **100.0** | **133,051** | **100.0** |

**Note:**

(1) Others mainly comprise GPS antenna, lighter holder, gear lens and screws.

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

**Commentary on revenue**

From FYE 2019 to FYE 2022, the fluctuations in revenue were largely driven by:

(i) volume of products sold; and

(ii) sales mix of our products for various vehicle models of PERODUA.

Vehicle audio and visual products was our largest contributor followed by vehicle accessories in terms of revenue from FYE 2019 to 2022.

**Comparison between FYE 2019 and FYE 2020**

Our revenue recorded an increase of RM4.2 million or 3.3% from RM126.5 million in FYE 2019 to RM130.7 million in FYE 2020 due to an increase in revenue from vehicle audio and visual products (increase of RM2.2 million) and vehicle accessories (increase of RM2.0 million).

Vehicle audio and visual products

Our revenue from vehicle audio and visual products increased by RM2.2 million or 2.3% from RM99.4 million in FYE 2019 to RM101.6 million in FYE 2020, which was attributed to an increase in revenue from vehicle infotainment systems of RM1.4 million and reverse cameras of RM1.3 million, mainly as a result of:

(i) higher orders relating to the newly launched 2019 ARUZ vehicle model; and

(ii) higher orders relating to the 2020 BEZZA vehicle model following the launch of the facelift model.

Vehicle accessories

Our revenue from vehicle accessories increased by RM2.0 million or 7.4% from RM27.1 million in FYE 2019 to RM29.1 million in FYE 2020, which was mainly attributed to the following product category:

(i) USB chargers of RM1.3 million mainly due to higher orders for the 2020 BEZZA vehicle model; and

(ii) air conditioning control panels of RM0.9 million due to higher orders for the 2018 MYVI and 2018 TERIOS vehicle models.

However, the increase in revenue from vehicle accessories was partially offset by the decrease in revenue from mirror switches of RM0.2 million.

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

**Comparison between FYE 2020 and FYE 2021**

Our revenue recorded a decrease of RM0.8 million or 0.7% from RM130.7 million in FYE 2020 to RM129.9 million in FYE 2021 due to a decrease in revenue from vehicle accessories segment of RM2.5 million. This was offset by the increase in vehicle audio and visual products of RM1.7 million.

Vehicle audio and visual products

Our revenue from vehicle audio and visual products increased by RM1.7 million or 1.6% from RM101.6 million in FYE 2020 to RM103.3 million in FYE 2021, which was attributed to an increase in revenue from vehicle infotainment systems of RM1.2 million and audio video accessories of RM0.5 million, mainly as a result of:

(i) higher orders relating to the 2021 ATIVA vehicle model due to its then launch; and

(ii) higher orders relating to the 2018 ALZA vehicle model which was nearing the end of its production run.

Vehicle accessories

Our revenue from vehicle accessories decreased by RM2.5 million or 8.6% from RM29.1 million in FYE 2020 to RM26.6 million in FYE 2021, which was mainly attributed to a decrease in revenue from air conditioning control panels of RM2.2 million due to lower orders for the 2018 MYVI and 2018 TERIOS vehicle models. In addition, there were less orders of other products of RM0.2 million for the 2021 ARUZ and 2019 AXIA vehicle models.

**Comparison between FYE 2021 and FYE 2022**

Our revenue recorded an increase of RM3.2 million or 2.5% from RM129.9 million in FYE 2021 to RM133.1 million in FYE 2022 due to an increase in revenue from vehicle audio and visual products of RM3.9 million. The increase in revenue from vehicle audio and visual products was offset by the decrease in revenue from vehicle accessories of RM0.7 million.

Vehicle audio and visual products

Our revenue from vehicle audio and visual products increased by RM3.9 million or 3.8% from RM103.3 million in FYE 2021 to RM107.2 million in FYE 2022, which was attributed to an increase in revenue from vehicle infotainment systems of RM5.2 million, mainly as a result of higher orders for 2021 ATIVA vehicle model due higher bookings in FYE 2021 driven by the sales tax exemption by the Government for locally assembled passenger cars.

However, the increase in revenue from vehicle infotainment systems was offset by the decrease in revenue from reverse camera of RM1.3 million relating to sales of 2019 ARUZ and 2018 MYVI vehicle models which decreased in comparison with other models.

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

Vehicle accessories

Our revenue from vehicle accessories decreased by RM0.7 million or 2.7% from RM26.6 million in FYE 2021 to RM25.9 million in FYE 2022. The decrease was attributed to the overall decreased volume in most product categories of RM1.6 million due to less orders overall for all models except for the 2021 ATIVA and 2018 TERIOS. The exception was that revenue increased in air conditioning control panels of RM0.9 million due to higher orders for the 2018 TERIOS vehicle model.

### (b) Cost of sales, GP and GP margin

**Analysis of cost of sales by cost items**

The components of our cost of sales are as follows:

| | Audited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | FYE 2019 | | FYE 2020 | | FYE 2021 | | FYE 2022 | |
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| Direct materials | 79,024 | 85.2 | 88,170 | 84.9 | 81,910 | 82.2 | 92,912 | 85.6 |
| Production labour | 10,744 | 11.6 | 11,894 | 11.4 | 13,131 | 13.2 | 11,509 | 10.6 |
| Production overheads | 2,961 | 3.2 | 3,867 | 3.7 | 4,546 | 4.6 | 4,100 | 3.8 |
| | **92,729** | **100.0** | **103,931** | **100.0** | **99,587** | **100.0** | **108,521** | **100.0** |

#### (i) Direct materials

Direct materials consist mainly of PCBs and semiconductor components (ICs and discrete components) and other components and related parts (such as electrical connectors, cables and wires, plastics components and LCDs).

Direct materials were the largest component of our cost of sales, representing between 82.2% and 85.6% of our total cost of sales for FYE 2019 to 2022.

The fluctuations in direct material costs from FYE 2019 to 2022 was in line with the fluctuations in total revenue for the corresponding financial years; where the change in our sales volume was in tandem with the change in our direct material requirements, mainly IC, LCDs and plastic components. In FYE 2022, our direct materials costs increased 13.4% compared to revenue which increased by 2.5%, mainly due to higher price of the semiconductor components as a result of global supply shortages and high demand.

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

### (ii) Production labour

Production labour consists of production related labour costs, which includes staff payroll, statutory contributions, other related expenses such as transport allowance, training costs and staff welfare.

Our production labour represented between 10.6% and 13.2% of our total cost of sales from FYE 2019 to 2022. The change in our production labour costs was in tandem with the change in production headcount.

### (iii) Production overheads

Our production overheads consist mainly of depreciation of production lines, water and electricity charges, rental of factory as well as repair and maintenance of machineries and factories. Production overheads represented between 3.2% and 4.6% of our total cost of sales from FYE 2019 to 2022.

The components of our production overheads are as follows:

| | Audited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | FYE 2019 | | FYE 2020 | | FYE 2021 | | FYE 2022 | |
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| Depreciation | 1,578 | 53.3 | 1,654 | 42.8 | 2,146 | 47.2 | 2,258 | 55.1 |
| Upkeep of factory | 683 | 23.1 | 950 | 24.6 | 1,011 | 22.2 | 866 | 21.1 |
| Utilities | 527 | 17.8 | 557 | 14.4 | 604 | 13.3 | 794 | 19.4 |
| Rental expenses | 52 | 1.8 | 499 | 12.9 | 539 | 11.9 | 2 | - |
| Warranty claims | 13 | 0.4 | 99 | 2.5 | 112 | 2.5 | 61 | 1.5 |
| Subcontracted manpower | 108 | 3.6 | 108 | 2.8 | 92 | 2.0 | 77 | 1.9 |
| Testing fee | - | - | - | - | 42 | 0.9 | 42 | 1.0 |
| | **2,961** | **100.0** | **3,867** | **100.0** | **4,546** | **100.0** | **4,100** | **100.0** |

In 2019, we renovated our existing Rawang Factory and acquired 1 SMT line as a replacement for an older SMT line. We further installed electrostatic discharge control systems, temperature and humidity control systems as well as ISO Class 7 and 8 cleanroom manufacturing environment at our production area in Rawang Factory. During this renovation process, we relocated our manufacturing activities to 6 units of rented premises in close proximity to Rawang Factory to ensure no disruption in our manufacturing activities to meet the delivery milestones of our customers. As a result of above, our overheads recorded an increase of RM0.9 million or 30.6% in FYE 2020.

In FYE 2021, we recorded higher production overheads of RM0.7 million due to higher machinery depreciation expenses as we acquired more machineries in FYE 2021 in tandem with the renovation and upgrade of our Group's facilities, as well as higher electricity usage due to full year electricity charges on the rented premises. This continued in FYE 2022 as we purchased more machineries to improve the quality of our products and reduce internal production rejects.

In FYE 2022, production overheads decreased by RM0.4 million mainly due to lower rental expenses from the vacated rented premises after we completed our renovation of Rawang Factory towards the end of FYE 2021.

**Commentary on cost of sales, GP and GP margin**

We do not analyse our GP and GP margin by any product categories as all our products are automotive electronics, primarily infotainment systems, and we do not specifically allocate our costs to any particular product type.

**Comparison between FYE 2019 and FYE 2020**

Our cost of sales increased by RM11.2 million or 12.1% from RM92.7 million in FYE 2019 to RM103.9 million in FYE 2020 to support with the increase in total revenue of 3.3% in FYE 2020. This was primarily as a result of an increase in direct materials of RM9.1 million due to our product mix requirement in FYE 2020. In addition, an increase in production labour also contributed to an increase in cost of sales for FYE 2020.

The increase in our production labour of RM1.2 million or 10.7% from RM10.7 million in FYE 2019 to RM11.9 million in FYE 2020 was due to an increase in staff payroll as a result of annual salary adjustments and bonuses payable in FYE 2020. Our production overheads increased by RM0.9 million or 30.6% from RM3.0 million in FYE 2019 to RM3.9 million in FYE 2020, mainly due to additional rental expenses of RM0.4 million for 6 rented premises as we relocated our manufacturing activities during the renovation of our Rawang Factory and an increase in upkeep of factory for the repairs and maintenance of machineries in FYE 2020 due to normal wear and tear.

GP and GP margin

Our overall GP decreased by RM7.0 million or 20.7% from RM33.8 million in FYE 2019 to RM26.8 million in FYE 2020. Accordingly, GP margin decreased from 26.7% in FYE 2019 to 20.5% in FYE 2020.

The reduction in our GP margin was mainly due to:

(i) higher direct material cost as a result of product sales mix of more basic infotainment systems for the lower-end 2018 MYVI and competitive pricing for newer products for the newly launched 2019 ARUZ;

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

(ii) higher production labour due to increase in staff salaries; and

(iii) higher production overheads in FYE 2020 as compared to FYE 2019 due to rented expenses and expenses relating to upkeep of factory as explained above.

**Comparison between FYE 2020 and FYE 2021**

Our cost of sales decreased by RM4.3 million or 4.2% from RM103.9 million in FYE 2020 to RM99.6 million in FYE 2021. This is primarily as a result of a decrease in direct materials of RM6.3 million due to reduction in revenue for FYE 2021. This decrease in revenue was offset by the increase in production labour of RM1.2 million and the increase in production overheads of RM0.7 million.

The increase in our production labour of RM1.2 million or 10.4% from RM11.9 million in FYE 2020 to RM13.1 million in FYE 2021 was due to increase in staff payroll as a result of annual salary adjustment and bonus payout as well as additional headcounts in FYE 2021. Our production overheads increased by RM0.7 million or 17.6% from RM3.9 million in FYE 2020 to RM4.5 million in FYE 2021, mainly due to higher machinery depreciation expenses as we acquired more machineries in FYE 2021 as well as higher electricity usage due to full year electricity charges on rented premise.

GP and GP margin

Our overall GP increased by RM3.5 million or 13.0% from RM26.8 million in FYE 2020 to RM30.3 million in FYE 2021. Accordingly, GP margin improved from 20.5% in FYE 2020 to 23.3% in FYE 2021.

The improvement in our GP margin was mainly due to lower direct material costs as we sold better margin products for the newly launched 2021 ATIVA in FYE 2021 with reduced material components while maintaining the quality and functionality of our products as a result of our R&D efforts.

**Comparison between FYE 2021 and FYE 2022**

Our cost of sales increased by RM8.9 million or 9.0% from RM99.6 million in FYE 2021 to RM108.5 million in FYE 2022, which is higher than the increase in total revenue of 2.5% in FYE 2022. This resulted from an increase in direct materials cost of RM11.0 million due to higher price of the semiconductor components in FYE 2022 as explained above. The increase in direct materials was offset by the decrease in production labour of RM1.6 million and production overheads of RM0.4 million.

The decrease in our production labour of RM1.6 million or 12.4% from RM13.1 million in FYE 2021 to RM11.5 million in FYE 2022 was due to a decrease in staff payroll as a result of low bonuses payable and less employee's allowances paid due to the periods of operation shutdown during the MCO/NRP in FYE 2022. Our production overheads decreased by RM0.4 million or 9.8% from RM4.5 million in FYE 2021 to RM4.1 million in FYE 2022, mainly due to lower rental expenses of RM0.4 million for 6 rented premises which we vacated, as we had completed the renovation and relocated our operations back to our Rawang Factory towards the end of FYE 2021.

GP and GP margin

Our overall GP decreased by RM5.8 million or 19.0% from RM30.3 million in FYE 2021 to RM24.5 million in FYE 2022. GP margin decreased from 23.3% in FYE 2021 to 18.4% in FYE 2022 mainly due to higher direct materials cost as explained above. We are responsible for sourcing and procuring direct materials used for the manufacturing of our products based on production forecasts that our customers share with us. Due to the global supply disruption and higher demand, we were exposed to price fluctuations in the direct materials. To pass on the cost to our customers, we need to negotiate with our major customers for the price adjustments on the back of higher direct material cost caused by the supply disruption. Our selling price may be adjusted upwards upon agreement with our major customers. Pending such negotiation to be finalised, our Group will continue to be exposed to price fluctuations. Although our Group has historically been able to pass on the increase in cost, we may not be able to mitigate the full extent of the price increase.

### (c) Other income

The breakdown of our other income is as follows:

| | Audited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **FYE 2019** | | **FYE 2020** | | **FYE 2021** | | **FYE 2022** | |
| | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| Net gains on disposal of property, plant and equipment | - | - | 25 | 8.6 | 806 | 47.2 | 8 | 0.7 |
| Others[(1)] | 83 | 9.7 | - | - | 765 | 44.8 | 427 | 39.3 |
| Repair and services charges[(2)] | 188 | 22.0 | 174 | 59.5 | 123 | 7.2 | 116 | 10.7 |
| Dividend income[(3)] | 259 | 30.2 | 4 | 1.4 | 14 | 0.8 | 2 | 0.2 |
| Realised gain on foreign exchange | 257 | 30.0 | 89 | 30.5 | - | - | 533 | 49.1 |
| Gain on disposal of other investments[(4)] | 67 | 7.8 | - | - | - | - | - | - |
| Insurance claim[(5)] | 2 | 0.2 | - | - | - | - | - | - |
| Waiver of debt | 1 | 0.1 | - | - | - | - | - | - |
| | **857** | **100.0** | **292** | **100.0** | **1,708** | **100.0** | **1,086** | **100.0** |

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

**Notes:**

(1) Others mainly represents reversal of overprovision of prior year sales tax of RM0.8 million in FYE 2021 and PERKESO Wages Subsidy Program by Government of RM0.4 million in FYE 2022.

(2) Relating to repair and services charges provided to consumers for products that are beyond the warranty period.

(3) Dividend income represents dividend received from quoted securities.

(4) Gain on disposal of other investments represent disposal of quoted securities in Bursa Securities.

(5) Insurance claim represents compensation received under a marine all-risk insurance policy for damages to direct materials (push switches).

**Comparison between FYE 2019 and FYE 2020**

Our other income recorded a decrease of RM0.6 million or 65.9% from RM0.9 million in FYE 2019 to RM0.3 million in FYE 2020, mainly due to a decrease in:

(i) dividend income of RM0.2 million received from quoted securities;

(ii) realised gain on foreign exchange of RM0.2 million for the settlement of foreign currency payable; and

(iii) gain on disposal of other investment of RM0.1 million.

**Comparison between FYE 2020 and FYE 2021**

Our other income increased by RM1.4 million or 484.9% from RM0.3 million in FYE 2020 to RM1.7 million in FYE 2021, mainly due to an increase in:

(i) net gain on disposal of property, plant and equipment (RM0.8 million) as we disposed moulds as well as older machineries from Rawang Factory during our renovation in FYE 2021; and

(ii) reversal of overprovided sales tax of RM0.8 million.

The increase in other income was partially offset by the decrease in realised gain on foreign exchange of RM0.1 million. Additionally, there was a decrease in repair services charge of RM0.1 million as we rendered less repair services.

**Comparison between FYE 2021 and FYE 2022**

Our other income decreased by RM0.6 million or 36.4% from RM1.7 million in FYE 2021 to RM1.1 million in FYE 2022, mainly due to a decrease in gain on disposal of property, plant and equipment of RM0.8 million and a one-off adjustment in other income of RM0.8 million being the reversal of overprovision of prior year sales tax in FYE 2021, which is in relation to claims on intangible assets amounting to RM0.9 million. These claims were not included as deductibles in FYE 2021. The decrease in other income was offset by:

(i) an increase in other income of RM0.4 million from the PERKESO Wages Subsidy Program by the Government; and

(ii) an increase in realised gain on foreign exchange of RM0.5 million for the settlement of foreign currency payables.

**(d) Distribution expenses**

The breakdown of our distribution expenses is as follows:

| | Audited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | FYE 2019 | | FYE 2020 | | FYE 2021 | | FYE 2022 | |
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| Postage costs[1] | 357 | 92.0 | 338 | 77.5 | 473 | 69.6 | 283 | 79.3 |
| Carriage outwards | 25 | 6.5 | 22 | 5.1 | 27 | 4.0 | 27 | 7.5 |
| Insurance[2] | 4 | 1.0 | 44 | 10.1 | 124 | 18.2 | 5 | 1.4 |
| Sales tax[3] | 2 | 0.5 | - | - | 27 | 4.0 | 41 | 11.5 |
| Exhibition[4] | - | - | 32 | 7.3 | 29 | 4.2 | 1 | 0.3 |
| | **388** | **100.0** | **436** | **100.0** | **680** | **100.0** | **357** | **100.0** |

**Notes:**

(1) Postage costs was paid to courier our engineering samples and product designs to DMC in Japan and China for product tests, as well as delivery of repaired products under warranty to marques' service centres in Malaysia.

(2) Includes goods in transit insurance premium for delivery of direct materials or products to rented premises during the renovation of Rawang Factory.

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

(3) Sales tax pertaining to certain components required for the repair of products under warranty that are not eligible for exemption under Sales Tax Act.

(4) Exhibitions in which we participated, namely the Malaysia International Trade and Exhibition Centre, Kuala Lumpur, and International Engineering Sourcing Show, India in FYE 2020 and the Malaysia International Trade and Exhibition Centre, Kuala Lumpur in FYE 2021.

**Comparison between FYE 2019 and FYE 2020**

Our distribution expenses increased marginally by RM0.1 million or 12.4% from RM0.3 million in FYE 2019 to RM0.4 million in FYE 2020. The increase was mainly due to insurance premiums and exhibition expenses.

**Comparison between FYE 2020 and FYE 2021**

Our distribution expenses increased by RM0.3 million or 56.0% from RM0.4 million in FYE 2020 to RM0.7 million in FYE 2021, mainly due to an increase in postage costs of RM0.1 million as we delivered more engineering samples and product designs to DMC offices in Japan and China for product tests and increase in goods in transit insurance premium of RM0.1 million relating to our rented premises.

**Comparison between FYE 2021 and FYE 2022**

Our distribution expenses decreased by RM0.3 million or 47.5% from RM0.7 million in FYE 2021 to RM0.4 million in FYE 2022, mainly due to a decrease in postage costs of RM0.2 million for repaired products delivered to marquis service centres and a decrease in goods in transit insurance premium of RM0.1 million upon relocation back to Rawang Factory.

### (e) Administrative expenses

The breakdown of our administrative expenses is as follows:

| | Audited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | FYE 2019 | | FYE 2020 | | FYE 2021 | | FYE 2022 | |
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| Staff costs[1] | 3,503 | 69.0 | 3,890 | 59.7 | 3,465 | 62.6 | 3,578 | 59.1 |
| Upkeep and maintenance[2] | 585 | 11.5 | 788 | 12.1 | 669 | 12.1 | 639 | 10.5 |
| Depreciation | 384 | 7.5 | 405 | 6.2 | 502 | 9.1 | 706 | 11.7 |
| License fees[3] | 187 | 3.7 | 331 | 5.1 | 489 | 8.8 | 317 | 5.2 |
| Professional fees[4] | 100 | 2.0 | 673 | 10.3 | 313 | 5.7 | 334 | 5.5 |
| Marketing expenses[5] | 212 | 4.2 | 206 | 3.2 | 58 | 1.0 | 168 | 2.8 |

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

| | Audited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | FYE 2019 | | FYE 2020 | | FYE 2021 | | FYE 2022 | |
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| Stamp duty | - | - | - | - | - | - | 185 | 3.1 |
| Others[6] | 107 | 2.1 | 219 | 3.4 | 38 | 0.7 | 127 | 2.1 |
| | **5,078** | **100.0** | **6,512** | **100.0** | **5,534** | **100.0** | **6,054** | **100.0** |

**Notes:**

(1) Staff costs mainly comprise directors and staff salaries, allowances, bonuses, insurances, statutory contribution, medical fees, training and staff welfare.

(2) Upkeep and maintenance mainly comprise regular repairs and maintenance for motor vehicles and office, securities charges, utilities, printing, courier and stationery as well as insurances and road tax.

(3) License fees comprises annual license fees for our IT software.

(4) Professional fees mainly comprise audit fee, legal fee and secretarial fee.

(5) Marketing fees comprise entertainment expenses as well as sponsorship for Tennis Championship KL Open for FYE 2019 and FYE 2020, Tennis Malaysia Junior Tour 2021 and National Junior Squad Development 2022 for FYE 2022.

(6) Others mainly comprise stamp duty, travelling and accommodation expenses, bank charges and advertisement.

**Comparison between FYE 2019 and FYE 2020**

Our administrative expenses increased by RM1.4 million or 28.2%, from RM5.1 million in FYE 2019 to RM6.5 million in FYE 2020. This was mainly attributable to:

(i) increase in professional fees of RM0.6 million, mainly on renovation consulting services for Rawang Factory;

(ii) increase in staff costs of RM0.4 million, attributed to annual salary adjustment and bonus payouts arising from the higher profit recorded in FYE 2019, as well as the additional headcount;

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

(iii) increase in upkeep and maintenance of RM0.2 million, mainly attributed to an increase in security charges for our temporary rented premises while the Rawang Factory was under renovation in FYE 2020; and

(iv) increase in others of RM0.1 million, mainly attributed to the stamp duty fee paid for new term financing facility agreement in FYE 2020.

**Comparison between FYE 2020 and FYE 2021**

Our administrative expenses decreased by RM1.0 million or 15.0%, from RM6.5 million in FYE 2020 to RM5.5 million in FYE 2021. This was attributable to:

(i) decrease in staff costs of RM0.4 million, mainly due to a decrease in staff and directors' bonus arising from the lower profit recorded in FYE 2020;

(ii) decrease in professional fee of RM0.4 million and a decrease in other expenses of RM0.2 million, mainly attributed to the non-recurrent legal fee and stamp duty in relation to the term financing facility agreement entered in FYE 2020;

(iii) decrease in marketing expenses of RM0.1 million, as we did not incur any sponsorship fee in FYE 2021 as no sports tournament was held during the COVID-19 pandemic; and

(iv) decrease in upkeep and maintenance of RM0.1 million, attributed to lower usage of electricity as our office staff worked from home during the MCO period where our office was shut.

The decrease in administrative expenses was offset by an increase in license fees of RM0.2 million for software subscription and licence renewals.

**Comparison between FYE 2021 and FYE 2022**

Our administrative expenses increased by RM0.5 million or 9.4%, from RM5.5 million in FYE 2021 to RM6.1 million in FYE 2022. This was mainly attributable to:

(i) an increase in stamp duty of RM0.2 million, which was in relation to the new financing facility agreements entered with licensed financial institutions in FYE 2022;

(ii) an increase in depreciation of RM0.2 million mainly attributed to the addition of various new tools, equipment, furniture and office equipment for the renovated Rawang Factory;

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

(iii) an increase in staff costs of RM0.1 million, attributed to an increase in directors' fee; and

(iv) an increase in other expenses of RM0.1 million, attributed to an increase in bank charges for trust receipts and processing fee for activation of new banking facility.

The increase in administrative expenses was partially offset by a decrease in license fee of RM0.2 million due to one-off expenses for newly acquired mounting software of RM0.2 million in FYE 2021 which did not recur in FYE 2022.

### (f) Property, plant and equipment written off

Our existing Rawang Factory was constructed in 1997. In 2019, we renovated our existing Rawang Factory. During this renovation process, we wrote off old furniture and office equipment, renovation, plant and machinery as well as tools, equipment and moulds, which we replaced with new machinery, equipment, furniture and office equipment.

In FYE 2020, we wrote off RM4.5 million, mainly for building renovations as well as plant and machinery. In FYE 2021, we wrote off RM3.8 million, mainly for plant and machinery, building renovations as well as furniture and office equipment. In February 2021, we completed renovation works and relocated our operations from the rented premises to Rawang Factory.

In FYE 2021, property, plant and equipment written off amounting RM3.8 million was mainly for old plant and machinery, tools, equipment and moulds as well as furniture and office equipment replaced after we completed renovation works and relocated our operations from the rented premises to Rawang Factory.

### (g) Other expenses

The breakdown of our other expenses is as follows:

| | Audited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | FYE 2019 | | FYE 2020 | | FYE 2021 | | FYE 2022 | |
| | RM'000 | % | RM'000 | % | RM'000 | % | RM'000 | % |
| Fair value loss on other investments | 14 | 100.0 | 65 | 100.0 | 2,383 | 90.1 | 25 | 2.6 |
| Realised loss on foreign exchange | - | - | - | - | 263 | 9.9 | - | - |
| Amortisation of intangible assets | - | - | - | - | - | - | 952 | 97.4 |
| | **14** | **100.0** | **65** | **100.0** | **2,646** | **100.0** | **977** | **100.0** |

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

**Comparison between FYE 2019 and FYE 2020**

Our other expenses increased by RM0.1 million being losses on quoted securities listed on Bursa Securities.

**Comparison between FYE 2020 and FYE 2021**

Our other expenses increased by RM2.5 million, from RM0.1 million in FYE 2020 to RM2.6 million in FYE 2021. The was mainly due to the diminution value in foreign unquoted securities of RM2.3 million, where the investee company namely Chronos AI Inc. ("**Chronos**"), an existing company incorporated in the state of Delaware, USA on 14 November 2012, is principally involved in D&D, and marketing of asset positioning solutions. The solution was eventually not viable for commercialisation and as such we fully impaired our investment in the company. Additionally, there was an increase in realised loss on foreign exchange of RM0.2 million for the settlement of foreign currency payables.

As at LPD, our Group holds 3.3% of equity interest in Chronos. There are no contingent liabilities incurred or known to be incurred from our investment in Chronos.

**Comparison between FYE 2021 and FYE 2022**

Our other expenses decreased by RM1.7 million from RM2.6 million in FYE 2021 to RM1.0 million in FYE 2022. The decrease was due to the non-recurrence of diminution value in foreign unquoted securities of RM2.4 million in FYE 2021, and the absence of realised loss on foreign exchange as compared to FYE 2022. The decrease in other expense was offset by an increase in amortisation of intangible assets, being R&D costs for our new infotainment platform, of RM1.0 million.

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

### (h) Finance income

Our finance income consists of interest income on fixed deposit with a licensed bank, deposit with licensed banks as well as cash and bank balances.

The breakdown of our finance income is as follows:

| | Audited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | FYE 2019 | | FYE 2020 | | FYE 2021 | | FYE 2022 | |
| **Interest income on:** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| - Fixed Deposits pledged with a financial institution | 7 | 17.9 | 10 | 4.8 | 10 | 6.2 | 5 | 20.0 |
| - Deposits with financial institutions | - | - | 3 | 1.4 | - | - | 19 | 76.0 |
| - Bank balances | 32 | 82.1 | 196 | 93.8 | 150 | 93.8 | 1 | 4.0 |
| | **39** | **100.0** | **209** | **100.0** | **160** | **100.0** | **25** | **100.0** |

**Comparison between FYE 2019 and FYE 2020**

Our finance income recorded an increase of RM0.2 million mainly due to increase in interest received on bank balance arising from higher cash and bank balances in FYE 2020 as compared to FYE 2019.

**Comparison between FYE 2020 and FYE 2021**

Our finance income recorded a decrease of RM0.1 million was due to a decrease in interest received on bank balances as a result of lower interest rates in tandem with the cut in Overnight Policy Rate (OPR) by BNM.

**Comparison between FYE 2021 and FYE 2022**

Our finance income recorded a decrease of RM0.1 million mainly due to a lower interest received on lower bank balances in FYE 2022.

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

### (i) Finance costs

The breakdown of our finance costs is as follows:

| | Audited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | FYE 2019 | | FYE 2020 | | FYE 2021 | | FYE 2022 | |
| **Interest expenses on:** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** | **RM'000** | **%** |
| - Term financing | - | - | 327 | 94.5 | 383 | 93.9 | 874 | 93.3 |
| - Commitment fees on bank overdraft | - | - | 13 | 3.8 | 20 | 4.9 | 14 | 1.5 |
| - Lease liabilities | 2 | 100.0 | 6 | 1.7 | 5 | 1.2 | 3 | 0.3 |
| - Trust receipts | - | - | - | - | - | - | 46 | 4.9 |
| | **2** | **100.0** | **346** | **100.0** | **408** | **100.0** | **937** | **100.0** |

**Comparison between FYE 2019 and FYE 2020**

Our finance cost recorded an increase of RM0.3 million due to the increase in interest charged on term financing. During FYE 2020, we drew down term financing of RM12.4 million for the renovation of our Rawang Factory. Additionally, we also secured new finance lease of RM0.2 million for the purchase of 1 unit of motor vehicle.

**Comparison between FYE 2020 and FYE 2021**

Our finance cost recorded an increase of RM0.1 million due to the increase in interest charged on term financing. During FYE 2021, we progressively drew down term financing of RM12.3 million for the continued renovation of our Rawang Factory. Nonetheless, the higher interest charges were cushioned by the lower OPR.

**Comparison between FYE 2021 and FYE 2022**

Our finance cost recorded an increase of RM0.5 million mainly due to higher outstanding balances on term financing drawn down from Maybank in FYE 2022 for the refinancing of our Group's term loans from Affin. We settled our existing term financing amounting to RM23.4 million in full via loan refinancing into a new term financing facility (RM15.1 million) and drew down a revolving credit of (RM8.0 million) in FYE 2022.

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

### (j) Tax expenses, PBT and PAT

The following table sets out the comparison between the statutory tax rates and our effective tax rates from FYE 2019 to 2022:

| | Audited | | | |
|---|---|---|---|---|
| | **FYE 2019** | **FYE 2020** | **FYE 2021** | **FYE 2022** |
| Taxation (RM'000) | 6,275 | 4,544 | 6,844 | 3,844 |
| Statutory tax rate (%) | 24.0 | 24.0 | 24.0 | 24.0 |
| Effective tax rate (%) | 21.5 | 29.5 | 35.9 | 22.2 |

The following table sets out our PBT, PBT margin, PAT and PAT margin from FYE 2019 to 2022:

| | Audited | | | |
|---|---|---|---|---|
| | **FYE 2019** | **FYE 2020** | **FYE 2021** | **FYE 2022** |
| PBT (RM'000) | 29,227 | 15,417 | 19,052 | 17,316 |
| PBT margin (%) | 23.1 | 11.8 | 14.7 | 13.0 |
| PAT (RM'000) | 22,952 | 10,873 | 12,208 | 13,472 |
| PAT margin (%) | 18.1 | 8.3 | 9.4 | 10.1 |

**Comparison between FYE 2019 and FYE 2020**

Our PBT decreased from RM29.2 million for FYE 2019 to RM15.4 million for FYE 2020, mainly due to lower GP and GP margin, higher administrative expenses and higher property, plant and equipment written off. Accordingly, our PBT margin decreased from 23.1% for FYE 2019 to 11.8% for FYE 2020. In line with our PBT margin decrease, our PAT margin recorded a decrease from 18.1% in FYE 2019 to 8.3% in FYE 2020.

For FYE 2020, the effective tax rate increased to 29.5% due to higher non-deductible expenses attributable to the property, plant and equipment written off.

**Comparison between FYE 2020 and FYE 2021**

Our PBT increased from RM15.4 million for FYE 2020 to RM19.1 million for FYE 2021, mainly due to higher GP, higher other income, as well as lower administrative expenses and property, plant and equipment written off in FYE 2021. Our PBT margin increased from 11.8% for FYE 2020 to 14.7% for FYE 2021, mainly attributed to higher GP margin. In line with the increase in our PBT margin, our PAT margin increased from 8.3% in FYE 2020 to 9.4% in FYE 2021.

For FYE 2021, the effective tax rate increased to 35.9% from 29.5% in FYE 2020 due to underprovision of tax expenses based on provisional tax computation, and the higher non-deductible expenses incurred in FYE 2021, being the fair value loss on other investments.

**Comparison between FYE 2021 and FYE 2022**

Our PBT decreased from RM19.1 million for FYE 2021 to RM17.3 million for FYE 2022, mainly due to the lower GP, lower other income, higher administrative expenses and finance costs as explained above. Accordingly, our PBT margin decreased from 14.7% for FYE 2021 to 13.0% for FYE 2022.

Despite the decrease in our GP margins, our PAT margin increased from 9.4% in FYE 2021 to 10.1% in FYE 2022, mainly due to a decrease in income tax expenses from RM6.8 million to RM3.8 million due to the lower PBT of RM17.3 million, and the reversal of the overprovision of tax expenses for FYE 2021 being claims on intangible assets amounting to RM0.9 million which were not included as deductibles in FYE 2021. This also resulted in our effective tax rate being reduced to 22.2% in FYE 2022 from 35.9% in FYE 2021. This was partially offset by higher non-deductible expenses incurred in FYE 2022 being higher deferred tax liabilities as a result of the under-recognition of deferred tax liabilities in prior financial years.

### 12.2.2 Review of financial position

#### (a) Assets

Our assets as at FYE 2019 to 2022 are as follows:

| | Audited | | | |
|---|---|---|---|---|
| | As at 31 March | | | |
| | **2019** | **2020** | **2021** | **2022** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 18,448 | 18,875 | 37,808 | 38,361 |
| Right-of-use assets | 51 | 236 | 186 | - |
| Intangible assets | - | 861 | 5,456 | 5,695 |
| Cash and bank balances, deposits and placement | 246 | 256 | 266 | - |
| **Total non-current assets** | **18,745** | **20,228** | **43,716** | **44,056** |
| **Current assets** | | | | |
| Inventories | 38,129 | 33,456 | 38,921 | 55,868 |
| Trade receivables | 14,501 | 9,199 | 17,059 | 16,533 |
| Other receivables, deposits and prepayments | 7,098 | 8,568 | 11,365 | 6,996 |
| Other investments | 2,610 | 2,545 | 162 | 136 |
| Tax recoverable | - | 293 | 266 | 1,742 |
| Cash and bank balances, deposits and placement | 10,349 | 27,434 | 14,196 | 15,881 |
| **Total current assets** | **72,687** | **81,495** | **81,969** | **97,156** |
| **TOTAL ASSETS** | **91,432** | **101,723** | **125,685** | **141,212** |

**FYE 2020**

**Non-current assets**

Our non-current assets increased by RM1.5 million due to:

(i) addition of property, plant and equipment of RM7.3 million, mainly comprising renovation and upgrading at Rawang Factory (RM4.5 million), various tools and equipment (RM1.7 million), new furniture and office equipment (RM0.7 million) and plant and machinery (RM0.4 million);

(ii) increase in right-of-use assets of 1 unit of motor vehicle (RM0.2 million); and

(iii) increase in intangible assets of RM0.9 million for development cost incurred to enhance our products with new technologies i.e. Smart Device Link (SDL) as well as telematics and e-call system.

The increase in non-current assets was offset by:

(i) overall depreciation charges RM2.1 million;

(ii) property, plant and equipment written off worth RM4.5 million, mainly old furniture and office equipment, renovation, plant and machinery as well as tools, equipment and moulds discarded during the Rawang Factory renovation; and

(iii) disposal of tools, equipment and moulds with carrying amounts of RM0.3 million.

**Current assets**

Our current assets increased by RM8.8 million mainly due to:

(i) increase of RM17.1 million in cash and bank balances, deposits and placement due to higher internally generated funds contributed by higher sales;

(ii) increase in other receivables of RM1.5 million, mainly due to deposits paid to suppliers for future orders; and

(iii) tax recoverable of RM0.3 million.

The increase in current assets was partially offset by:

(i) decrease in trade receivables of RM5.3 million, as we suspended operations due to the MCO 1.0; and

(ii) decrease in inventories of RM4.7 million, mainly due to less purchases towards the end of FYE 2020. In this respect, we had placed orders to be delivered after FYE 2020 and paid deposits to our suppliers, which were recorded as other receivables instead.

**FYE 2021**

**Non-current assets**

Our non-current assets increased by RM23.5 million due to:

(i) addition of property, plant and equipment of RM26.9 million, mainly comprising renovation and upgrading of Rawang Factory (RM16.1 million), plant and machinery (RM7.0 million, mainly comprising 1 unit of solder paste printing machine (including chip mounters) of RM3.7 million, 1 unit of in-line SPI system of RM1.4 million, 1 unit of laser marking machine of RM0.8 million and 1 wave soldering machine of RM0.7 million), various tools and equipment (RM2.8 million), motor vehicle (RM0.1 million) and new furniture and office equipment (RM0.9 million); and

(ii) increase in intangible assets of RM4.6 million for development cost incurred comprising the technical partners fees of RM4.4 million, and RM0.2 million for new infotainment platform, a modular unibody automobile platform that allows part sharing between model of vehicles developed together with Shenzhen Zhonghong Technology Co Ltd and KPIT.

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

(i) property, plant and equipment written off worth RM3.8 million, mainly for old plant and machinery, tools, equipment and moulds as well as furniture and office equipment;

(ii) overall depreciation charges of RM2.6 million; and

(iii) disposal of plant and machinery, tools, equipment and moulds as well as furniture and office equipment with carrying amounts of RM1.5 million.

**Current assets**

Our current assets increased by RM0.5 million mainly due to:

(i) increase in inventories of RM5.5 million due to more purchases to cater for the expected sales orders in the following year;

(ii) increase in trade receivables of RM7.9 million as a result of the normalisation of our business operations following the resumption of our production activities following approval granted to BESB by MITI; and

(iii) increase in other receivables of RM2.8 million mainly due to higher deposits paid to suppliers for future sales orders.

The increase in current assets was partially offset by:

(i) decrease in other investment of RM2.4 million, mainly due to impairment of our foreign unquoted securities investment; and

(ii) decrease in cash and bank balances, deposits and placement of RM13.2 million, mainly used for working capital including input material purchases and advance deposit payments to suppliers.

**FYE 2022**

**Non-current assets**

Our non-current assets increased by RM0.3 million due to:

(i) addition of property, plant and equipment of RM3.4 million, mainly comprising renovation and upgrading at Rawang Factory (RM1.4 million), various tools and equipment (RM1.6 million), new furniture and office equipment (RM0.3 million) and motor vehicle (RM0.1 million); and

(ii) increase in intangible assets of RM1.2 million for development cost incurred comprising the technical partner fees for the new infotainment platform developed together with Shenzhen Zhonghong Technology Co Ltd, which is a modular unibody automobile platform that allows for parts sharing between model of vehicles, reducing development costs and at the same time, saving more time required to develop new models.

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

The increase in non-current assets was offset by:

(i) overall depreciation charges of RM3.0 million;

(ii) amortisation of intangible assets of RM0.9 million being our new infotainment system;

(iii) disposal of plant and machinery, tools, equipment and motor vehicles with carrying amounts of RM0.1 million; and

(iv) reclassified non-current fixed deposit with licensed bank of RM0.3 million to current assets fixed deposit with licensed bank.

**Current assets**

Our current assets increased by RM15.2 million due to:

(i) increase in inventories of RM16.9 million due to more purchases made for sales orders in the following year as well as buffering against supply chain disruptions;

(ii) increase in tax recoverable of RM1.5 million; and

(iii) increase of RM1.7 million in cash and bank balances, deposits and placement due to higher internally generated funds contributed by higher sales.

The increase in current assets was offset by:

(i) decrease in other receivables of RM4.4 million, mainly due to reduction in deposits paid to suppliers for inventories following delivery of orders; and

(ii) decrease in trade receivables of RM0.5 million, due to more collections received from customers towards the end of FYE 2022.

**(b) Liabilities**

Our liabilities as at FYE 2019 to 2022 are as follows:

| | **Audited** | | | |
|---|---|---|---|---|
| | **As at 31 March** | | | |
| | **2019** | **2020** | **2021** | **2022** |
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| **Non-current liabilities** | | | | |
| Bank borrowings | - | 10,582 | 22,137 | 19,030 |
| Lease liabilities | - | 116 | 87 | - |
| Deferred tax liabilities | 1,502 | 1,462 | 2,360 | 3,513 |
| **Total non-current liabilities** | **1,502** | **12,160** | **24,584** | **22,543** |
| **Current liabilities** | | | | |
| Trade payables | 10,223 | 5,431 | 8,696 | 8,945 |
| Other payables | 2,071 | 2,082 | 4,259 | 4,010 |
| Borrowing | - | 1,270 | 1,156 | 12,281 |
| Lease liabilities | 26 | 28 | 29 | - |
| Tax payable | 730 | - | - | - |
| **Total current liabilities** | **13,050** | **8,811** | **14,140** | **25,236** |
| **TOTAL LIABILITIES** | **14,552** | **20,971** | **38,724** | **47,779** |

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

**FYE 2020**

**Non-current liabilities**

Our non-current liabilities increased by RM10.7 million due to increase in borrowings of RM10.6 million and lease liabilities of RM0.1 million. During FYE 2020, we drew down on term financing of RM12.4 million for the renovation of Rawang Factory and secured a new lease liability of RM0.1 million for the purchase 1 unit of motor vehicle.

The increase in non-current liabilities was offset by the decrease in deferred tax liabilities of RM0.04 million.

**Current liabilities**

Our current liabilities decreased by RM4.2 million due to:

(i) decrease in trade payables of RM4.8 million, mainly due lower purchases made on the onset of MCO 1.0; and

(ii) decrease in tax payables of RM0.7 million.

The decrease in current liabilities was offset by an increase in the short-term portion of term financing of RM1.3 million due to higher drawdowns.

**FYE 2021**

**Non-current liabilities**

Our non-current liabilities increased by RM12.4 million mainly due to an increase in term financing of RM11.6 million for the continued renovation of Rawang Factory. Additionally, an increase in deferred tax liability of RM0.9 million also contributed to the increase in non-current liabilities.

The increase in non-current liabilities was offset by the decrease in lease liabilities of RM0.03 million due to repayment of lease liabilities.

**Current liabilities**

Our current liabilities increased by RM5.3 million due to:

(i) increase in trade payables of RM3.2 million, mainly due to normalisation of our business operations following the resumption of our production activities following approval granted to BESB by MITI; and

(ii) increase in other payables of RM2.2 million, mainly due to higher provision of bonuses in FYE 2021.

The increase in current liabilities was offset by a decrease in short-term portion of term financing of RM0.1 million in line with scheduled repayment.

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

**FYE 2022**

**Non-current liabilities**

Our non-current liabilities decreased by RM2.0 million due to decrease in bank borrowings of RM3.1 million. This is because we settled our existing term financing amounting to RM23.4 million in full via loan refinancing into a new term financing facility (RM15.4 million) and drew down a revolving credit of (RM8.0 million) in FYE 2022. Of the new facilities, RM2.9 million is classified as current liabilities. The decrease in non-current liabilities was offset by an increase in deferred tax liabilities of RM1.1 million mainly due to the temporary differences arising from property, plant and equipment and intangible assets.

**Current liabilities**

Our current liabilities increased by RM11.1 million due to:

(i) increase in current short-term portion of bank borrowings of RM11.1 million. The current short-term portion of bank borrowings mainly comprise trust receipts of RM8.2 million for the working capital primarily to finance the purchases of input materials and advance deposit payments to suppliers, and short-term portion of revolving credit of RM2.9 million used for the refinancing of existing term financing facilities; and

(ii) increase in trade payables of RM0.2 million, mainly due to more purchases made towards the last quarter of FYE 2022.

The increase in current liabilities was offset by a decrease in other payables of RM0.3 million, mainly due to the absence of one-off accrued interest on early settlement of existing term financing in FYE 2021 (RM0.9 million). The decrease was offset by increase in provision of bonus of RM0.6 million for the full year of FYE 2022.

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### 12.2.3 Review of cash flows

#### (a) Cash flow summary

The table below sets out the summary of our combined statements of cash flows for FYE 2019 to 2022.

| | FYE 2019 RM'000 | FYE 2020 RM'000 | FYE 2021 RM'000 | FYE 2022 RM'000 |
|---|---|---|---|---|
| Net cash (used in)/from operating activities | (2,529) | 20,479 | 10,873 | 14,051 |
| Net cash used in investing activities | (514) | (7,880) | (29,136) | (4,511) |
| Net cash (used in)/from financing activities | (5,533) | 4,401 | 5,025 | (7,975) |
| Net (decrease)/increase in cash and cash equivalents | (8,576) | 17,000 | (13,238) | 1,565 |
| Cash and cash equivalents at beginning of the financial year | 18,925 | 10,349 | 27,349 | 14,111 |
| Net increase in cash and cash equivalents at the end of the financial year | **10,349** | **27,349** | **14,111** | **15,676** |
| **Cash and cash equivalents consist of:** | | | | |
| Deposits with financial institutions | 246 | 341 | 11,351 | 476 |
| Cash and bank balances | 10,349 | 27,349 | 3,111 | 15,405 |
| | 10,595 | 27,690 | 14,462 | 15,881 |
| Less: Deposits pledged with a financial institution | (246) | (341) | (351) | (205) |
| | **10,349** | **27,349** | **14,111** | **15,676** |

**FYE 2019**

**Net cash for operating activities**

We recorded net cash outflow for operating activities of RM2.5 million, after taking into the consideration our operating profit of RM30.9 million, and the following working capital changes:

(i) increase in inventories of RM22.2 million, mainly due to increase in purchases of input materials to meet the expected demand for the following financial year;

(ii) increase in receivables of RM6.2 million, mainly due to higher billings which was in tandem with the growth in our revenue;

(iii) increase in payables of RM2.2 million, mainly due to higher trade payables during the last quarter of FYE 2019 for the purchase of input materials as well as higher accrued expenses; and

(iv) payment of income tax of RM7.2 million.

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

**Net cash for investing activities**

We recorded a net cash outflow for our investing activities of RM0.5 million, mainly due to purchases of RM1.1 million for property, plant and equipment, mainly comprising 1 unit of in-line AOI system (RM0.3 million) and various tools and equipment (RM0.5 million).

The cash outflow was offset by the cash inflow of the proceeds from disposal of property, plant and equipment of RM0.3 million as well as dividend received from quoted securities of RM0.3 million.

**Net cash for financing activities**

We recorded a net cash outflow for our financing activities of RM5.5 million, due to:

(i) dividend paid of RM5.5 million in respect of FYE 2018; and

(ii) repayment of lease liabilities of RM0.03 million.

**FYE 2020**

**Net cash for operating activities**

We recorded net cash inflow from operating activities of RM20.5 million, after taking into the consideration our operating profit of RM22.2 million, and the following working capital changes:

(i) decrease in inventories of RM4.7 million, mainly due to less purchases towards the end of FYE 2020. In this respect, we had placed orders to be delivered after FYE 2020 and paid deposits to our suppliers, which were recorded as other receivables instead;

(ii) decrease in receivables of RM3.8 million, mainly due to lower sales and billings as we suspended operations on the onset of MCO 1.0;

(iii) decrease in payables of RM4.8 million, mainly due to lower purchases on the onset of MCO 1.0; and

(iv) payment of income tax of RM5.6 million and receipt of interest of RM0.2 million.

**Net cash for investing activities**

We recorded a net cash outflow for our investing activities of RM7.9 million, due to:

(i) purchase of property, plant and equipment of RM7.3 million, mainly comprising renovation and upgrading at Rawang Factory (RM4.5 million), various tools and equipment (RM1.7 million), new furniture and office equipment (RM0.7 million) and plant and machinery (RM0.4 million);

(ii) RM0.1 million was used to fund part of the purchase of 1 unit of motor vehicle of RM0.2 million for right-of-use assets while the remaining payments were financed through finance leases; and

(iii) addition of intangible assets for Smart Device Link (SDL) as well as telematics and e-call system of RM0.9 million.

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

The cash outflow was offset by the proceeds from the disposal of moulds worth RM0.3 million.

**Net cash for financing activities**

We recorded a net cash inflow from our financing activities of RM4.4 million, due to drawdown of term financing of RM12.4 million to finance the renovation of Rawang Factory.

The cash inflow was partially offset by:

(i) dividend paid of RM7.0 million in respect of FYE 2019 and FYE 2020;

(ii) repayment of term financing (RM0.5 million) and lease liabilities (RM0.03 million) and

(iii) payment of interest charged on term financing and commitment fee on bank overdraft of RM0.3 million.

**FYE 2021**

**Net cash for operating activities**

We recorded net cash inflow from operating activities of RM10.9 million, after taking into the consideration our operating profit of RM27.4 million, and the following working capital changes:

(i) increase in inventories of RM5.6 million, mainly due to more purchases towards the end of FYE 2021 to meet the expected sales order in the following year;

(ii) increase in receivables of RM10.7 million and payables of RM5.4 million, as a result of the normalisation of our business operations following the resumption of our production activities following approval granted to BESB by MITI; and

(iii) payment of income tax of RM5.9 million and receipt of interest of RM0.2 million.

**Net cash for investing activities**

We recorded a net cash outflow for our investing activities of RM29.1 million, due to:

(i) purchase of property, plant and equipment of RM26.9 million, mainly comprising renovation at Rawang Factory (RM16.1 million), plant and machineries (RM7.0 million, mainly comprising 1 unit of solder paste printing machine (including chip mounters) of RM3.7 million, 1 unit of in-line SPI system of RM1.4 million, 1 unit of laser marking machine of RM0.8 million and 1 wave soldering machine of RM0.7 million), various tools and equipment (RM2.8 million) and new furniture, motor vehicle (RM0.1 million) and office equipment (RM0.9 million); and

(ii) addition of intangible assets for D&D works for our new infotainment platform of RM4.6 million.

The cash outflow was partially offset by the proceeds from disposal of, moulds as well as plant and machinery including a SMT line totalling RM2.3 million.

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

**Net cash from financing activities**

We recorded a net cash inflow from our financing activities of RM5.0 million due to drawdown of term financing of RM12.3 million for the purpose of financing the continued renovation and upgrading of Rawang Factory.

The cash inflow was offset by:

(i) dividend paid of RM6.0 million in respect of FYE 2020 and FYE 2021;

(ii) repayment of term financing (RM0.9 million) and lease liabilities (RM0.03 million); and

(iii) payment of interest charged on term financing and commitment fee on bank overdraft of RM0.4 million.

**FYE 2022**

**Net cash for operating activities**

We recorded net cash inflow from operating activities of RM14.1 million, after taking into consideration our operating profit of RM22.2 million, and the following working capital changes:

(i) increase in inventories of RM16.9 million, mainly due to more purchases towards the last quarter of FYE 2022 for sales orders in the following year as well as buffering against supply chain disruptions;

(ii) decrease in receivables of RM4.8 million, mainly due to reduction in deposits paid to suppliers for inventories following delivery of orders;

(iii) increase in trust receipts of RM8.2 million used for the working capital purpose; and

(iv) payment of income tax of RM4.2 million.

**Net cash for investing activities**

We recorded a net cash outflow for our investing activities of RM4.5 million, due to:

(i) purchase of property, plant and equipment of RM3.4 million, mainly comprising renovation and upgrading at Rawang Factory (RM1.4 million), various tools and equipment (RM1.6 million), new furniture and office equipment (RM0.3 million) and motor vehicle (RM0.1 million); and

(ii) addition of intangible assets for the R&D of our new infotainment platform of RM1.2 million.

The cash outflow was offset by the proceeds from disposal of plant and machinery, tools, equipment and motor vehicles of RM0.1 million.

**Net cash for financing activities**

We recorded a net cash outflow for our financing activities of RM8.0 million due to:

(i) dividend paid of RM7.0 million in respect of FYE 2022;

(ii) payment of interest charged on term financing and lease liabilities as well as commitment fee on bank overdraft totalling RM0.9 million; and

(iii) repayment of term financing (RM23.4 million) and lease liabilities (RM0.1 million).

The cash outflow was partially offset by a drawdown of term financing of RM15.4 million and net drawdown of revolving credit of RM8.0 million for working capital purposes.

### 12.2.4 Recent developments

Other than the Acquisition, there were no significant events subsequent to our Group's audited combined financial statements for FYE 2022.

## 12.3 LIQUIDITY AND CAPITAL RESOURCES

### 12.3.1 Working capital

We have been financing our operations through existing cash and bank balances, cash generated from our operations, credit extended by our suppliers and external sources of funds. Our external sources of funds comprise a term financing as well as a finance lease. The principal use of our borrowings is for the renovation of Rawang Factory, purchase additional machineries and working capital purpose.

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

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

(a) Our deposit, cash and bank balances as at LPD of approximately RM19.3 million (excluding RM0.2 million which is pledged as security for our banking facilities);

(b) Our banking facilities (excluding lease liabilities) of up to a limit of RM69.0 million as at LPD, of which RM33.7 million has been utilised;

(c) Our expected future cash flows from operations from major customers who provide us with the forecast of their orders up to 6 months in advance. These forecasted orders generally materialise, and, coupled with our outstanding sales orders, will be converted to cash within the credit period given; and

(d) Our pro forma NA position and gearing level as at 31 March 2022 after the Acquisition and Public Issue (and utilisation of proceeds) of RM123.8 million and 0.2 times respectively.

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

### 12.4 BORROWINGS AND INDEBTEDNESS

Our total outstanding borrowings as at 31 March 2022 stood at RM31.3 million, details of which are set out below. All our borrowings are secured, interest-bearing and denominated in RM.

| | Purpose | Security | Tenure of the facility | Effective interest rate | As at 31 March 2022 |
|---|---|---|---|---|---|
| | | | | % per annum | RM'000 |
| **Current** | | | | | |
| Term financing | Renovation and upgrading of Rawang Factory and working capital requirements | (i) Legal charge over our Group's property;<br>(ii) Joint and several guarantee by Mirzan Bin Mahathir and Iskandar Holdings;<br>(iii) Fixed deposits as disclosed in Note 7 to the combined financial statements;<br>(iv) Personal guarantee by Mirzan Bin Mahathir; and<br>(v) Corporate guarantee by Iskandar Holdings | 120 months | Ranging between 3.20 to 3.56 | 1,260 |
| Revolving credit | Refinancing of term financing from Affin Bank | (i) First party second legal charge over our Group's property;<br>(ii) Personal guarantee by Mirzan Bin Mahathir; and<br>(iii) Corporate guarantee by Iskandar Holdings | 60 months | 3.90 | 2,870 |
| Trust receipts | Purchase of direct materials | (i) Personal guarantee by Mirzan Bin Mahathir; and | 150 days | Ranging between 2.86 to 3.86 | 8,151 |

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

| | Purpose | Security | Tenure of the facility | Effective interest rate | As at 31 March 2022 |
|---|---|---|---|---|---|
| | | | | % per annum | RM'000 |
| | | (ii) Assignment of receivables or proceeds. | | | |
| | | | | **Total current borrowings** | **12,281** |
| **Non-current** | | | | | |
| Term financing | Renovation and upgrading of Rawang Factory and working capital requirements | (i) Legal charge over our Group's property;<br>(ii) Joint and several guarantee by Mirzan Bin Mahathir and Iskandar Holdings;<br>(iii) Fixed deposits as disclosed in Note 7 to the combined financial statements;<br>(iv) Personal guarantee by Mirzan Bin Mahathir; and<br>(v) Corporate guarantee by Iskandar Holdings | 120 months | Ranging between 3.20 to 3.56 | 13,859 |
| Revolving credit | Refinancing of term financing from Affin Bank | (i) First party second legal charge over our Group's property;<br>(ii) Personal guarantee by Mirzan Bin Mahathir; and<br>(iii) Corporate guarantee by Iskandar Holdings | 60 months | 3.90 | 5,171 |
| | | | | **Total non-current borrowings** | **19,030** |
| | | | | **Total borrowings** | **31,311** |

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

**Pro forma gearing (times)**

| | |
|---|---|
| After Acquisition but before the Public Issue[1] | 0.3 |
| After Acquisition, Public Issue and utilisation of proceeds [2] | 0.2 |

**Notes:**

(1) Computed based on our pro forma shareholders' funds of RM93.4 million in the pro forma combined statements of financial position after the Acquisition but before the Public Issue.

(2) Computed based on our pro forma shareholders' funds of RM123.8 million in the pro forma combined statements of financial position after the Acquisition, Public Issue and utilisation of proceeds.

Our pro forma gearing ratio is expected to decrease from 0.3 times (before the Public Issue) to 0.2 times (after the Public Issue and utilisation of proceeds) due to increase in shareholders' funds arising from the issuance of the Issue Shares and repayment of borrowings from proceeds of our Public Issue.

The following table sets out the contractual cash flow (including financing cost) of the maturities of our borrowings as at 31 March 2022:

| | **As at 31 March 2022** |
|---|---|
| | **RM'000** |
| **Borrowings** | |
| Within the next 12 months | 13,052 |
| Later than 1 year but not later than 5 years | 13,129 |
| More than 5 years | 9,515 |
| **Total borrowings** | **35,696** |

As at LPD, we do not have any borrowings which are non-interest bearing and/or in foreign currency. We have not defaulted on payments of principal sums and/or interests in respect of any borrowings throughout FYE 2019 to 2022 as well as the subsequent financial year up to LPD.

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

From FYE 2019 to 2022, we have not experienced any clawback or reduction in the facility limits granted to us by our lenders.

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

As at LPD, save for our borrowings as disclosed in Section 12.4, we do not utilise any other financial instruments.

We finance our operations mainly through cash generated from our operations, credit extended by trade payables as well as external sources of funds which mainly comprise borrowings. Save for finance leases which carry fixed interest rates, all other borrowings bear variable interest rates based on the bank's cost of funds plus a rate which varies depending on the different types of bank facilities.

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

The usages of these banking facilities are for renovation of Rawang Factory, addition of machineries as well as for working capital.

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

#### 12.6.1 Material commitments

Save as disclosed below, and as at LPD, our Group does not have any material capital commitment:

| | To be funded internally | To be funded from proceeds of our IPO |
|---|---|---|
| | RM'000 | RM'000 |
| Authorised and not contracted for: | | |
| Testing equipment for R&D[1] | - | 2,500 |
| Construction works[2] | 19 | 6,500 |
| Purchase of new process equipment[3] | - | 3,000 |
| | **19** | **12,000** |

**Notes:**

(1) Please refer to Section 4.9.1 (a) for further details.

(2) Please refer to Section 4.9.1 (b) for further details.

(3) Please refer to Section 4.9.1 (c) for further details.

#### 12.6.2 Material litigation and contingent liability

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

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

### 12.7 POLICIES ON FOREIGN EXCHANGE CONTROL AND PROFIT REPATRIATION

We have not established any other place of business outside of Malaysia and are thus not subject to government laws, decrees, regulations or other legislations that may affect the repatriation of capital and remittance of profits by or to us.

### 12.8 KEY FINANCIAL RATIOS

The key financial ratios of our Group for FYE 2019 to 2022 are as follows:

| | FYE 2019 | FYE 2020 | FYE 2021 | FYE 2022 |
|---|---|---|---|---|
| Trade receivable turnover (days) [1] | 40 | 33 | 37 | 46 |
| Trade payable turnover (days) [2] | 36 | 28 | 26 | 30 |
| Inventory turnover (days) [3] | 106 | 126 | 133 | 159 |
| Current ratio (times) [4] | 5.6 | 9.3 | 5.8 | 3.9 |
| Gearing ratio (times) [5] | N/A | 0.2 | 0.3 | 0.3 |

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

**Notes:**

(1) Computed based on the average trade receivables divided by total revenue for the respective financial year, multiplied by 365/366 days for each financial year:

| | FYE 2019 | FYE 2020 | FYE 2021 | FYE 2022 |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Opening trade receivables | 12,934 | 14,501 | 9,199 | 17,059 |
| Closing trade receivables | 14,501 | 9,199 | 17,059 | 16,533 |
| Revenue | 126,542 | 130,732 | 129,869 | 133,051 |
| Average trade receivable turnover period (days) | 40 | 33 | 37 | 46 |

(2) Computed based on the average trade payables divided by total cost of sales for the respective financial year, multiplied by 365/366 days for each financial year:

| | FYE 2019 | FYE 2020 | FYE 2021 | FYE 2022 |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Opening trade payables | 8,102 | 10,223 | 5,431 | 8,696 |
| Closing trade payables | 10,223 | 5,431 | 8,696 | 8,945 |
| Cost of sales | 92,729 | 103,931 | 99,587 | 108,521 |
| Average trade payable turnover period (days) | 36 | 28 | 26 | 30 |

(3) Computed based on the average inventories divided by total cost of sales for the respective financial year, multiplied by 365/366 days for each financial year:

| | FYE 2019 | FYE 2020 | FYE 2021 | FYE 2022 |
|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 |
| Opening inventory | 15,923 | 38,129 | 33,456 | 38,921 |
| Closing inventory | 38,129 | 33,456 | 38,921 | 55,868 |
| Cost of sales | 92,729 | 103,931 | 99,587 | 108,521 |
| Inventory turnover period (days) | 106 | 126 | 133 | 159 |

(4) Computed based on current assets over current liabilities as at year end for each of FYE 2019 to 2022.

(5) Computed based on the total borrowings over total equity as at year end for each of FYE 2019 to 2022.

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

### 12.8.1 Trade receivable turnover

The ageing analysis of our trade receivables as at 31 March 2022 is as follows:

| | | Exceeding credit period but not impaired | | | Total |
|---|---|---|---|---|---|
| | Within credit period | 1 to 30 days | 31 to 60 days | 61 to 90 days | |
| Trade receivables (RM'000) | 16,243 | 290 | - | - | **16,533** |
| % of total trade receivables | *98.2* | *1.8* | *-* | *-* | *100.0* |
| Subsequent collections up to LPD (RM'000) | 16,243 | 290 | - | - | **16,533** |
| Trade receivables net of subsequent collections (RM'000) | - | - | - | - | - |
| *% of total trade receivables (net of subsequent collections)* | *-* | *-* | *-* | *-* | *-* |

Our normal trade terms range between 30 days and 60 days. We use ageing analysis to monitor the credit quality of our trade receivables.

Our average trade receivable turnover periods for FYE 2019, FYE 2020, FYE 2021 and FYE 2022 were 40 days, 33 days, 37 days and 46 days respectively. The trade receivables turnover days decreased from FYE 2019 to FYE 2020 due to lower sales and billings on the onset of MCO 1.0. The trade receivables turnover days increased due to the shutdown of our operations during MCO and NRP, where receivables took longer to be paid, which partially contributed to the higher average receivable balance computed using both FYE 2021 and 2022 as compared to the balances for FYE 2020 and 2021, as operations normalised after being earlier disrupted during the MCO in 2020 and we purchased more inventories as buffer.

As at LPD, we have collected all of our total trade receivables.

Our management closely monitors the recoverability of the trade receivables on a regular basis.

Our Group has not encountered any major disputes with our debtors. No allowance for impairment was provided as there were no doubtful receivables outstanding for FYE 2019, FYE 2020, FYE 2021 and FYE 2022.

### 12.8.2 Trade payable turnover

The ageing analysis of our trade payables as at 31 March 2022 is as follows:

| | | Exceeding credit period | | | | |
|---|---|---|---|---|---|---|
| | Within credit term | 1 to 30 days | 31 to 60 days | 61 to 90 days | More than 90 days | Total |
| Trade payables (RM'000) | 8,945 | - | - | - | - | 8,945 |
| % of total trade payables | *100.0* | *-* | *-* | *-* | *-* | *100.0* |
| Subsequent payments up to LPD (RM'000) | 8,945 | - | - | - | - | 8,945 |
| Trade payables net of subsequent payments (RM'000) | - | - | - | - | - | - |
| % of total trade payables (net of subsequent payments) | - | - | - | - | - | - |

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

The normal trade terms granted to our Group by our suppliers range between 30 days and 90 days.

Our average trade payable turnover period for FYE 2019, FYE 2020, FYE 2021 and FYE 2022, were 36 days, 28 days, 26 days and 30 days respectively, which is within the credit period given. The trade payables turnover days decreased from 36 days for FYE 2019 to 27 days for FYE 2020 and subsequently to 26 days for FYE 2021 due to lower purchases arising from production disruptions during the MCO in FYE 2020 and 2021. Further, our trade payables turnover days increased to 30 days in FYE 2022 mainly due to the shutdown of our operations during MCO and NRP, where receivables took longer to be paid, which partially contributed to the slightly higher trade payables balances computed using both FYE 2021 and 2022 as compared to the balances for FYE 2020 and 2021.

As at LPD, all the outstanding trade payables have been paid.

### 12.8.3 Inventory turnover

Our inventories consist of raw materials, work-in-progress and finished goods.

Our inventory turnover for FYE 2019, FYE 2020, FYE 2021 and FYE 2022 is as follows:

| | **FYE 2019** | **FYE 2020** | **FYE 2021** | **FYE 2022** |
|---|---|---|---|---|
| Inventory turnover (days) | 106 | 126 | 133 | 159 |

Our inventory turnover days vary year to year according to our sales orders. The inventory turnover days increased from 106 days for FYE 2019 to 126 days for FYE 2020 to 133 days for FYE 2021 and subsequently to 159 days for FYE 2022 mainly because our operations were shutdown due to MCO and NRP, where inventories took longer to be sold. Additionally, we also purchased more inventories for future expected sales orders to buffer against global supply shortages and disruptions in logistics and transportation.

As at 31 March 2022, the inventories of our Group amounted to RM55.9 million and can be analysed as follows:

| | **1 to 30 days** | **31 to 60 days** | **61 to 90 days** | **91 days and above** | **Total** |
|---|---|---|---|---|---|
| | **RM'000** | **RM'000** | **RM'000** | **RM'000** | **RM'000** |
| Raw materials | 2,571 | 7,066 | 13,414 | 13,806 | 36,857 |
| Work-in-progress | 5,337 | 1,487 | 7,977 | 146 | 14,947 |
| Finished goods | 3,744 | 120 | 65 | 135 | 4,064 |
| | **11,652** | **8,673** | **21,456** | **14,087** | **55,868** |

We conduct quarterly management meetings to review our inventory levels and inventory ageing. Approval is required from authorised personnel at management level for replenishment of stocks and impairment on slow moving stocks.

Our Group practices weighted average basis in computing the cost of inventories, work-in-progress, and finished goods. The costs of raw materials include invoiced value of goods purchased and expenditure incurred for acquiring inventories. The cost of finished goods and work-in-progress comprises raw materials, production labour and an appropriate proportion of production overheads. Finished goods that are above 91 days old are generally goods kept for service, repair and warranty purposes.

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

### 12.8.4 Current ratio

Our current ratios for FYE 2019, FYE 2020, FYE 2021 and FYE 2022 are as follows:

| | FYE 2019 | FYE 2020 | FYE 2021 | FYE 2022 |
|---|---|---|---|---|
| Current ratio (times) | 5.6 | 9.3 | 5.8 | 3.9 |

Our current ratio was between 3.9 times and 9.3 times from FYE 2019 to 2022. Our current ratio rose to 9.3 times from FYE 2019 mainly due to an increase in cash and bank balances, deposits and placement as a result of term financing drawdown pending the progress of renovation of Rawang Factory and additional acquisition of machineries.

For FYE 2022, our current ratio reduced from 5.8 times for FYE 2021 to 3.9 times for FYE 2022. This was mainly due to an increase in short-term portion in borrowings in FYE 2022, which are attributed to the short-term portion of bank borrowings of RM11.1 million, mainly comprising trust receipts for working capital, revolving credit and term financing used for refinancing of the existing term financing facilities.

Our current ratio indicates that our Group is capable of meeting our current obligations as our current assets which can be readily converted to cash, together with our cash in the bank are enough to meet immediate current liabilities.

Kindly also refer to Section 12.2.2 for further details on our current assets and current liabilities.

### 12.8.5 Gearing ratio

Our gearing ratios for FYE 2019, FYE 2020, FYE 2021 and FYE 2022 are as follows:

| | FYE 2019 | FYE 2020 | FYE 2021 | FYE 2022 |
|---|---|---|---|---|
| Gearing ratio (times) | N/A | 0.2 | 0.3 | 0.3 |

Prior to FYE 2019, we did not have borrowings and hence no gearing ratio. Our gearing ratio increased to 0.2 times in FYE 2020 and subsequently to 0.3 times in FYE 2021, mainly for our term financing facility to finance the renovation of Rawang Factory as well as the purchase of additional machineries. There was no significant change in our gearing ratio for the financial year under review.

## 12.9 SIGNIFICANT FACTORS AFFECTING OUR REVENUE

Section 9 details a number of risk factors relating to our business and the industry in which we operate. Some of these risk factors have an impact on our revenue and financial performance. The significant factors affecting our revenue include, but are not limited to, the following:

**(a) We are significantly dependent on the PERODUA Group**

As an EMS provider, our business is tied to that of our PERODUA Group's business and the industry they operate in. As we have no control over the prospects and success of their business, our financial performance may be adversely affected if they lose market share, experience financial difficulty or if they face economic downturn which affects demand for their products or services.

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

### (b) We are dependent on adequate supply of input materials at competitive prices

Our manufacturing operations are dependent on input materials used in our business, including discrete components such as semiconductor components and ICs, as well as electronic, mechanical and related parts such as connectors, electromechanical components, acoustic parts, cables and wires. We source input materials from Malaysia as well as foreign countries. Our imported input materials accounted for 71.3%, 68.4%, 69.8% and 74.8% of our purchases of input materials for FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively.

Particularly for FYE 2019 to 2022, our purchases of ICs make up the largest of our purchases of input materials, accounting for 51.0%, 39.5%, 43.8% and 46.0% for FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively. Our purchases of plastic parts and metal parts, which we sourced locally, are categorised under other components and related parts. They collectively accounted for 11.4%, 12.9%, 10.9% and 8.8% of our purchases of input materials the FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively. The prices of these input materials may be influenced by factors that are beyond our control, including market supply and demand for these plastic parts and metal parts, geographical political stability and changing political environments in the regions where we make procurements.

For reference, the price of ICs increased by an average of 1.1%, 12.3% and 61.8% year-on-year from FYE 2019 to FYE 2020, FYE 2020 to FYE 2021 and FYE 2021 to FYE 2022 respectively. The significant increase in the average price of ICs in FYE 2022 of 61.8% was due to global supply shortage of semiconductors, which are expected to affect our profit margins for FYE 2022.

Historically, our Group has been able to pass on significant price increases in input material to PERODUA Group. However, due to the global supply disruption and higher demand, we were exposed to price fluctuations in the direct materials. To pass on the cost to our customers, we need to negotiate with our major customers for the price adjustments on the back of higher direct material cost caused by the supply disruption. Our selling price may be adjusted upwards upon agreement with our major customers. Pending such negotiation to be finalised, our Group will continue to be exposed to price fluctuations.

Although our Group has historically been able to pass on the increase in cost, we may not be able to mitigate the full extent of the price increase. Moving forward, we may not be able to pass on the increase in the costs of input materials to our customers, in a timely manner or at all, or avoid adverse impact on our profit margin if there is a significant increase in our input material prices.

Moreover, the price adjustment mechanisms that are in place with certain of our customers are subject to certain conditions, which may further restrict our ability to pass the increased costs on them. In addition, the implementation of the price adjustment provisions requires our staff to closely monitor the prices of input materials and currency exchange rates. We may not have adequate resources to monitor the currency exchange rates and the impacted prices at all times. In such instances, our results of operations and financial condition may be materially and adversely affected.

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

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

There were no government, economic, fiscal or monetary policies or factors which have materially affected our financial performance from FYE 2019 to 2022 except for the MCO imposed as detailed in Section 7.10.1.

There is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or other factors moving forward.

### 12.11 IMPACT OF INFLATION

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

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

#### 12.12.1 Impact of foreign exchange rates

We are exposed to transactional currency exposure as approximately 71.3%, 68.4%, 69.8% and 74.8% of our purchases were denominated in USD for FYE 2019 to 2022 respectively. The fluctuation of the RM against the USD and SGD may adversely affect our financial performance and GP margin.

A sensitivity analysis performed on our Group's foreign currency financial assets and liabilities as at 31 March 2022 indicates that, in the event of a 1% fluctuation of RM against USD, and SGD, our PBT for FYE 2022 would fluctuate by RM19,579 and RM4,487 respectively.

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

#### 12.12.2 Impact of interest rates

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

A sensitivity analysis performed on our Group based on the outstanding floating rate of the bank borrowings as at 31 March 2022 indicates that our PAT for FYE 2022 would increase or decrease by RM115,801, as a result of increase or decrease in interest rates by 50 basis points on these borrowings.

Our Group's financial results from FYE 2019 to 2022 were not materially and adversely affected by fluctuations in interest rates. However, any major increase in interest rates would raise the cost of our borrowings and our finance costs, which may have an adverse effect on the performance of our Group.

#### 12.12.3 Impact of commodity prices

We are not materially affected by fluctuations in commodity prices and the input materials that we use in our production activities are not commodities.

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

### 12.13 SIGNIFICANT CHANGES

Save for COVID-19 pandemic as disclosed in Section 7.10, there are no other significant changes which may have a material effect on the financial position and results of our Group subsequent to FYE 2022 and up to LPD. Please refer to Section 7.10 for further details on the impact of the COVID-19 pandemic on our Group's business and financial performance.

### 12.14 ORDER BOOK

Due to the nature of our business, we do not have any long-term agreements with our customers, and therefore do not maintain an order book. However, we are appointed by PERODUA Group as a selected supplier for its vehicle models where our appointment generally lasts throughout the life cycle of the vehicle model. This appointment reflects a firm commitment by PERODUA Group to purchase the relevant automotive electronics from us for the life cycle of the vehicle model.

The volume of the automotive electronics and components to be ordered are subsequently determined by purchase orders. In this respect, PERODUA Group provide us with firm orders, generally for 1 month in advance, and a further forecast of up to another 5 months thereafter.

### 12.15 DIRECTORS' STATEMENT ON OUR GROUP'S FINANCIAL PERFORMANCE

Our Board is of the opinion that:

(a) our Group's revenue will remain sustainable with an upward growth trend, in line with the recovery and long term growth of the automotive electronics industry as set out in the IMR Report, as well as PERODUA's sales target. Additionally, we strive to generate new revenue streams with PERODUA by introducing more components per vehicle with higher or newer technology, which will spur growth in revenue despite lower units of sales by PERODUA;

(b) our liquidity will improve subsequent to the Public Issue given the additional funds to be raised for us to carry out our future plans as stated in Section 7.17; and

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

In addition to the above, our Board confirms that there are no known circumstances which would result in a significant decline in our revenue and GP margin, and likely to have a material impact on our liquidity, revenue or profitability.

### 12.16 TREND INFORMATION

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

(a) Revenue contribution from vehicle audio and visual product segment has been the main revenue contributor for our business. We expect this segment to continue contributing significantly to our revenue in the future;

(b) For FYE 2019 to 2022, our revenue was primarily derived locally and from our major customers. We expect this trend to continue in the future; and

(c) For FYE 2019 to 2022, the main component of our cost of sales was input materials. We expect this trend to continue.

As at LPD, after all reasonable enquiries and save as disclosed in Sections 12.2, 12.3, and 12.4, our Board confirms that our operations have not been and are not expected to be affected by any of the following:

(a) known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's financial performance, position, operations, liquidity and capital resources save as disclosed in this section and Sections 7.12, 12.10, 12.11 and 12.12;

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

(c) unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group save as disclosed in this section and Sections 7.12, 9 and 12.14;

(d) known trends, demands, commitments, events or uncertainties that have resulted in a material impact on our Group's revenue and/or profits save as disclosed in this section and Sections 7.12, 12.10, 12.11 and 12.12; and

(e) known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not necessarily indicative of the future financial performance and position save as disclosed in this section and Sections 7.12, 12.10, 12.11 and 12.12.

Despite the impact of COVID-19, we continued to secure new orders and did not experience any cancellation in sales orders from our customers. Thus, our Board is optimistic about the future prospects of our Group given the positive outlook of the automotive electronics and automotive industries in Malaysia as set out in the IMR Report in Section 8, our Group's competitive strengths as set out in Section 7.11 and our Group's business strategies and prospects as set out in Sections 7.17 and 7.18.

## 12.17 DIVIDENDS

Our Company does not have any formal dividend policy. As we are a holding company, our Company's income and therefore our ability to pay dividends is dependent upon the dividends we receive from our subsidiary, present or future. Save for compliance with the solvency requirement under the Act, which is applicable to all Malaysian companies, and consent from our financier (namely, HSBC Amanah Malaysia Berhad) as set out in the respective facility agreements, there are no legal, financial, or economic restrictions on the ability of our existing subsidiary to transfer funds in the form of cash dividends, loans or advances to us. Generally, consent from the financier is required if any payment or declaration of such dividend exceeds or will exceed the PAT or a specific PAT threshold as prescribed in the respective facility agreements. Moving forward, the payment of dividends or other distributions by our subsidiary will depend on their distributable profits, operating results, financial condition, capital expenditure plans, business expansion plans and other factors that their board of directors deem relevant.

The declaration of interim dividends and the recommendation of final dividends are subject to the discretion of our Board and any final dividends for the year are subject to shareholders' approval. Actual dividends proposed and declared may vary depending on the financial performance and cash flows of our Group.

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

Dividends declared and dividends paid by our subsidiary from FYE 2019 to 2022 and up to LPD were as follows:

| | FYE 2019 | FYE 2020 | FYE 2021 | FYE 2022 | 1 April 2022 up to LPD |
|---|---|---|---|---|---|
| | RM'000 | RM'000 | RM'000 | RM'000 | RM'000 |
| Dividends declared and paid | 5,500 | 7,000 | 6,000 | 7,000 | 4,000 |

Subsequent to 31 March 2022 and up to LPD, our Group declared and paid dividend of RM4.0 million in June and July 2022 in respect of FYE 2023. These dividends have been paid using internally generated funds and are not expected to affect our future plans or strategies moving forward. Further, we do not intend to declare and pay any dividends from the LPD up to the point of our Listing.

### 12.18 CAPITALISATION AND INDEBTEDNESS

The table below summarises our capitalisation, borrowings and indebtedness as at 31 July 2022 and after Public Issue, including the utilisation of proceeds from the Public Issue.

| | BESB | I | II | III |
|---|---|---|---|---|
| | As at 31 July 2022 | After Acquisition | After I and Public Issue | After II and utilisation of proceeds |
| | RM'000 | RM'000 | RM'000 | RM'000 |
| **Capitalisation** | | | | |
| Shareholders' equity | (9) | 93,433 | 127,183 | 123,783 |
| **Total capitalisation** | **(9)** | **93,433** | **127,183** | **123,783** |
| **Indebtedness[(1)]** | | | | |
| ***Non-current*** | | | | |
| Borrowings | - | 18,613 | 18,613 | 8,613 |
| ***Current*** | | | | |
| Borrowings | - | 14,709 | 14,709 | 14,709 |
| **Total indebtedness** | **-** | **33,322** | **33,322** | **23,322** |
| **Total capitalisation and indebtedness** | **-** | **126,755** | **160,505** | **147,105** |
| **Gearing ratio[(2)](times)** | - | 0.4 | 0.3 | 0.2 |

**Notes:**

(1) All of our indebtedness are secured and guaranteed.

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