

SMITH ZANDER

- **Increasing consumer preference for RTA furniture**

RTA furniture is an alternative to fully-assembled furniture which is increasingly preferred by consumers due to its flexibility and affordability. RTA furniture can be conveniently transported as it can be dismantled and packed. As such, consumers living in high rise buildings and smaller-spaced apartments typically have preference for RTA furniture, as well as for those who move frequently due to the nature of the careers, particularly amongst the younger generation. In addition, RTA furniture is typically more affordable for consumers due to lesser steps involved in the manufacturing process (i.e. assembly) as well as the wide usage of wood panel products as opposed to solid wood. The increasing popularity and affordability of RTA furniture drive global demand for furniture, thus creating growth opportunities for the furniture industry in Malaysia.

From 2019 to 2021, global furniture consumption increased at a CAGR of 9.64%, from USD490.82 billion (RM2.03 trillion)⁴ to USD590.01 billion (RM2.45 trillion); likewise, global wood-based home furniture increased at a CAGR of 11.54%, from USD199.08 billion (RM0.82 trillion) to USD247.67 billion (RM1.03 trillion). Please refer to **Chapter 4 Global Furniture Market** of this IMR Report for further details on global furniture consumption. Moving forward, as the global economy continues to grow and coupled with the abovementioned factors, the demand for global furniture consumption is expected to increase, which would subsequently further stimulate the demand for Malaysian furniture exports.

- ▶ **The demand for furniture export in Malaysia is driven by global trade conditions**

Malaysia has implemented Free Trade Agreements ("FTAs") which reduce barriers for imports and exports between Malaysia and the respective participants of the FTAs, such as removal of onerous customs regulations and procedures, as well as elimination or reduction of customs duties, thereby facilitating market access for Malaysian furniture exporters and encouraging furniture exports to these countries and promoting growth of the Malaysian furniture industry. The FTAs implemented by Malaysia include bilateral FTAs such as Malaysia-Japan Economic Partnership Agreement (MJEPA) and Malaysia-India Comprehensive Economic Cooperation Agreement (MICECA); as well as regional FTAs such as ASEAN-China Free Trade Agreement (ACFTA) and ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA).

2.4 INDUSTRY RISKS AND CHALLENGES

- ▶ **Inability to consistently offer designs that are accepted in key markets**

Furniture industry players are required to continuously develop and offer products with designs and styles that cater to the preferences of key export markets such as US, Singapore, Japan, Australia and UK in order to thrive in this export-oriented industry. However, changes in consumer preferences and demand trends can be frequent and are often not easily predicted. In order to stay abreast of these changing preferences and trends, furniture industry players in Malaysia need to regularly update their product designs and to keep informed on the changing needs of their customers through ongoing research.

Industry players who are able to constantly design and produce furniture with the latest popular trends may further strengthen their industry reputation, enjoy price premiums and thrive over the long term in the industry.

- ▶ **Exposure to competition**

The furniture industry in Malaysia is competitive with a large number of industry players. Industry players compete with each other in terms of track record, reputation, product designs, quality, volume, delivery periods and pricing.

Besides competition from industry players in Malaysia, industry players who export furniture to international customers also face competition from foreign furniture companies in other countries such as China and Vietnam. These foreign competitors may pose competition to local furniture industry players due to factors such as lower pricing. Failure to remain competitive may adversely impact industry players' ability in securing orders. Competitive pressures may also result in lower pricing to secure orders, which may affect the financial performance of industry players.

⁴ Exchange rate from USD to RM in 2019 was converted based on average annual exchange rates in 2019 extracted from published information from Bank Negara Malaysia at USD1=RM4.1427.

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► Reliance on manual labour for the manufacturing of furniture

The furniture industry is a labour-intensive industry. Industry players are required to utilise manual labour via in-house production teams or third-party manufacturers. While certain manufacturing processes for furniture with simple shapes (e.g. large flat surfaces) can be automated using machines, manufacturing processes for furniture with more complex shapes (e.g. cylindrical and round-shaped wood) may not be viable to be completely automated and still require manual labour to facilitate processes such as finger-jointing, assembly and quality control.

Industry players may experience direct or indirect labour shortages due to insufficient foreign and/or local workers, which may cause disruptions in manufacturing activities, delivery schedules and overall production of furniture. In Malaysia, from the imposition of the first MCO on 18 March 2020 until the re-opening of applications for the hiring of foreign workers on 15 February 2022, foreign workers were not allowed to enter Malaysia which led to a shortage of labour in many industries including the furniture manufacturing industry. While foreign workers have been allowed to enter Malaysia subject to approval of hiring applications, any prolonged shortages in the future could lead to potential cancellation of orders and reduction in sales which would adversely impact the financial performance of industry players.

► Dependency on wood as a key raw material for furniture

Wood is a key raw material for furniture, which may be used with other materials such as metal, plastic, aluminium, glass, fabric and leather. Rubberwood is one of the main types of timber which is used as solid wood, as well as used for the manufacturing of wood panel products, to manufacture furniture. Wood panel products are also manufactured from a mix of other tropical woods. Solid wood and wood panel products can be sourced from local suppliers as well as foreign distributors or manufacturers. While wood is generally available, there are occasions where there is shortage of local timber supply.

Timber in Malaysia is largely sourced from natural forest, plantation forest, alienated land or rubber replanting programs. As there is limited land for timber harvesting, shortages in local supply may sometimes occur. To mitigate this, timber products may be sourced from overseas suppliers.

3 COMPETITIVE LANDSCAPE OF THE FURNITURE INDUSTRY IN MALAYSIA

3.1 OVERVIEW

The furniture industry in Malaysia is competitive and fragmented due to the large number of industry players including public listed companies, large private companies as well as small to medium enterprises. The industry players in the furniture industry in Malaysia are involved in the design, development and/or manufacturing of furniture. Some industry players may cover the entire process from design and development to manufacturing of their own products, while some industry players may outsource certain processes, i.e. either design and development, or manufacturing, to external parties.

Despite the differences in business models and activities, the different types of industry players face competition amongst themselves to secure orders from customers, which comprise distributors/wholesalers/ importers, trading agents and furniture retailers. Further, given the increasing proliferation of e-commerce including e-commerce for furniture as outlined in **Chapter 4.2 Global Furniture E-commerce Market** of this IMR Report, some industry players such as Synergy Group, have ventured into the e-commerce market and begun selling their products directly to consumers through e-commerce platforms. In such circumstances, these industry players compete with online retailers to secure sales.

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8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)**SMITH ZANDER****3.2 KEY INDUSTRY PLAYERS**

As Synergy Group is principally involved in the design, development and sale of wood-based RTA home furniture to export markets, the following list sets out companies in Malaysia which are involved in the design, manufacturing and/or export of wood-based home furniture, which recorded more than RM50.00 million revenue based on their latest available financial years:

Company name	Examples of furniture products offered	Latest available financial year	Group/ company revenue (RM million)	Segmental revenue from furniture sales ^a (RM million)	Gross profit/ (loss) margin (%)	Profit/ (loss) after tax margin (%)
Rhong Khen International Berhad (formally known as Latitude Tree Holdings Berhad)	Home furniture: dining room, living room and bedroom furniture	30 June 2022	756.32	753.11	13.95	4.70
Lii Hen Industries Berhad	Home furniture: dining room, living room and bedroom furniture	31 December 2021	749.27	Not applicable	15.06	5.40
Poh Huat Resources Holdings Berhad	Home furniture: living room and bedroom furniture; office furniture	31 October 2022	703.15	Not applicable	21.90	11.95
Heveaboard Berhad	Home furniture: living room and bedroom furniture	31 December 2021	370.86	229.94	5.69	(0.31)
Sern Kou Resources Berhad	Home furniture: dining room, living room and bedroom furniture	30 June 2022	338.27	58.47	8.78	2.90
Jaycorp Berhad	Home furniture: dining room, living room and bedroom furniture	31 July 2022	305.69	151.43	18.71	7.00
Homeritz Corporation Berhad	Home furniture: dining room, living room and bedroom furniture	31 August 2022	243.29	Not applicable	Not available	16.85
Synergy Group	Home furniture: bedroom, living room and dining room furniture	31 December 2022	194.09	Not applicable	23.89	8.56
LY Furniture Sdn Bhd	Home furniture: bedroom furniture	31 December 2021	176.17	Not applicable	(2.83)	(3.43)
SWS Capital Berhad	Home furniture: dining room and living room furniture	31 December 2021	159.74	62.32	14.23	1.85
Techcential Sdn Bhd	Home furniture: bedroom furniture	31 December 2021	133.65	Not applicable	14.63	0.99
Wegmans Holdings Berhad	Home furniture: dining room, living room and bedroom furniture	31 December 2021	93.99	80.23	Not available	3.85
SHH Resources Holdings Berhad	Home furniture: dining room and bedroom furniture	30 June 2022	92.71	Not applicable	18.07	5.47
Mobilia Holdings Berhad	Home furniture: dining room, living room and bedroom furniture	31 December 2021	70.11	Not applicable	Not available	11.46

8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)**SMITH ZANDER**

Company name	Examples of furniture products offered	Latest available financial year	Group/ company revenue (RM million)	Segmental revenue from furniture sales ^a (RM million)	Gross profit/ (loss) margin (%)	Profit/ (loss) after tax margin (%)
Samling Housing Products Sdn Bhd	Home furniture: dining room, living room and bedroom furniture	30 June 2022	69.49	64.56	7.14	(3.65)
Rian Heng Wooden Furniture Industries Sdn Bhd	Home furniture: dining room, living room and bedroom furniture	31 December 2020	68.53	Not applicable	19.36	2.41
Soon Her Sing Industries (M) Sdn Bhd	Home furniture: dining room, living room and bedroom furniture; office furniture	30 September 2021	63.13	Not applicable	21.59	6.66
Ecomate Holdings Berhad	Home furniture: dining room, living room and bedroom furniture	28 February 2022	58.72	Not applicable	Not available	12.08
Spring Art Holdings Berhad	Home furniture: dining room, living room and bedroom furniture; office furniture	31 December 2021	54.78	Not applicable	23.70	10.52

Notes:

- Latest available as of 12 April 2023.
 - Not applicable – revenue generated from a single operating segment, i.e. furniture manufacturing and/or sales.
 - Not available – information not available as gross profit is not reported in the latest annual reports.
 - The identified key industry players include all industry players that were identified by SMITH ZANDER based on sources available, such as the internet, published documents and industry directories. However, there may be companies that have no online and/or published media presence, or are operating with minimal public advertisement, and hence SMITH ZANDER is unable to state conclusively that the list of industry players is exhaustive.
 - Several players which are also deemed competitors to Synergy Group are not included in the table as these companies are exempt private companies in their respective latest financial years. These companies include WA Cushion Sdn Bhd, AX Furniture Sdn Bhd, Marcoco Furniture Industries Sdn Bhd and Dee Noon Corporation Sdn Bhd, whereby their latest available audited financial statements from Companies Commission of Malaysia (“CCM”) are for the years ended 31 December 2018, 30 April 2018, 30 September 2018 and 31 August 2019 respectively.
- a Due to differing segmental revenue definitions of industry players, this may include some revenue derived from businesses other than furniture sales and/or revenue derived from outside Malaysia.

Sources: Various companies' websites, CCM, SMITH ZANDER

3.3 MARKET SHARE

Synergy Group captured an export market share of 1.72% in 2022, based on its export revenue of RM183.74 million (i.e. 94.66% of Synergy Group's total revenue of RM194.09 million) for the FYE 31 December 2022, computed against wood-based home furniture exports from Malaysia of RM10.71 billion in 2022.

4 GLOBAL FURNITURE MARKET**4.1 MARKET PERFORMANCE, SIZE AND GROWTH**

Global furniture consumption increased at a CAGR of 9.64%, from USD490.82 billion (RM2.03 trillion) in 2019 to USD590.01 billion (RM2.45 trillion) in 2021. Global wood-based home furniture consumption also increased, from USD199.08 billion (RM0.82 trillion) in 2019 to USD247.67 billion (RM1.03 trillion) in 2021, at a CAGR of 11.54%.

The COVID-19 pandemic since early 2020 caused many countries to impose mandatory movement controls and operating restrictions to contain the spread of the virus, which adversely impacted global economic conditions. Consequently, in 2020, global furniture consumption and global wood-based home

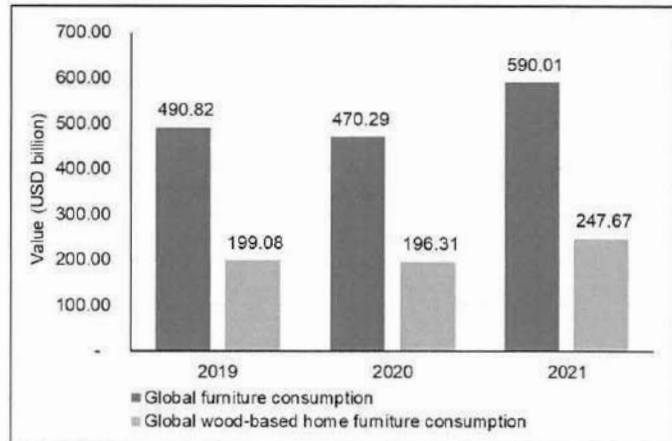
8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)**SMITH ZANDER**

furniture consumption recorded YOY declines of 4.18% and 1.39% respectively. This was in line with the contraction of the global economy as represented by world GDP in the same year at -2.95%. Nevertheless, the impact was cushioned by the purchase of home furniture during the movement control periods to improve home living spaces.

In 2021, the global economy, as represented by world GDP, improved by 6.02%. In the same year, global furniture consumption and global wood-based furniture consumption recorded YOY increases of 25.46% and 26.16% respectively. Additionally, the growth in global furniture consumption was also contributed by the growth in global furniture e-commerce sales, with further details set out in **Chapter 4.2 Global Furniture E-commerce Market**.

Moving forward, the International Monetary Fund projects the global economy to grow by 2.90% in 2023 and 3.10% in 2024, where overall consumer spending is expected to increase, which will subsequently drive global demand for furniture.

Global furniture consumption and global wood-based home furniture consumption, 2019-2021



Source: SMITH ZANDER

4.2 GLOBAL FURNITURE E-COMMERCE MARKET

E-commerce is defined as the sale and purchase of products and/or services over the internet through e-commerce platforms. E-commerce platforms have become an alternative retail platform to physical stores that allow consumers to shop for a wide range of products conveniently through their desktop or mobile devices, without being physically present at the retailers' physical stores. Consumers have access to product information and make purchases online instantly.

Global retail e-commerce sales increase from USD3.35 trillion (RM13.88 trillion) in 2019 to USD5.54 trillion (RM24.38 trillion)⁵ in 2022, at a CAGR of 18.26%. The outbreak of the COVID-19 pandemic has boosted e-commerce as more consumers shop online more frequently in view of movement restrictions and lockdowns imposed in many countries globally. In addition, consumers were driven to shop through e-commerce platforms to avoid shopping in physical stores to minimise the risk of infection. Moving forward, while COVID-19 situations in many countries have subsided, consumers are likely to continue shopping online as they have adapted to the lifestyle and convenience of online shopping.

The widespread use of e-commerce has extended to include the sale and purchase of furniture through the internet. As such, furniture e-commerce has been increasingly popular as consumers are able to conveniently browse and purchase furniture online. E-commerce platforms also provide convenience to furniture retailers as e-commerce platforms serve as an additional distribution channel for furniture retailers. With this, furniture retailers are able to reduce display space in their physical stores as well as reduce labour required to regularly manage display items in accordance to latest product launches. Temporary closures of physical stores and movement restrictions imposed in many countries during the COVID-19 pandemic also encouraged more consumers to shop for furniture online to improve home living spaces.

In line with the above factors, global furniture e-commerce sales⁶ grew from USD59.43 billion (RM246.20 billion) in 2019 to USD82.41 billion (RM341.62 billion) in 2021, at a CAGR of 17.76%. During the same period, global furniture e-commerce sales by region are set out as follows:

- **North America** – furniture e-commerce sales grew from USD21.63 billion (RM89.61 billion) in 2019 to USD30.13 billion (RM124.90 billion) in 2021, at a CAGR of 18.02%.

⁵ Exchange rate from USD to RM in 2022 was converted based on average annual exchange rates in 2022 extracted from published information from Bank Negara Malaysia at USD1=RM4.4005.

⁶ Latest available as of 12 April 2023.

8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)**SMITH ZANDER**

- **Europe** – furniture e-commerce sales grew from USD16.78 billion (RM69.51 billion) in 2019 to USD22.48 billion (RM93.19 billion) in 2021, at a CAGR of 15.74%.
- **Asia Pacific** – furniture e-commerce sales grew from USD17.84 billion (RM73.91 billion) in 2019 to USD25.76 billion (RM106.79 billion) in 2021, at a CAGR of 20.16%.
- **Latin America** – furniture e-commerce sales grew from USD2.45 billion (RM10.15 billion) in 2019 to USD3.21 billion (RM13.31 billion) in 2021, at a CAGR of 14.46%.
- **Middle East and Africa** – furniture e-commerce sales grew from USD0.72 billion (RM2.98 billion) in 2019 to USD0.83 billion (RM3.44 billion) in 2021, at a CAGR of 7.37%.

The furniture e-commerce market is expected to continue to grow with the continuous adoption of online shopping amongst consumers. In addition, high incidences of online advertising, search engine optimisation strategies and use of social media also enable retailers to attract more consumers to purchase their products online, including furniture.

5 PROSPECTS AND OUTLOOK

In 2022, furniture manufactured in Malaysia was exported globally to 174 countries. Based on latest data available, in 2021, Malaysia was the 12th largest furniture exporting country globally, accounting for 1.46% of total global furniture exports of USD 206.85 billion (RM857.48 billion). Between 2019 and 2022, Malaysia's furniture export grew from RM11.10 billion to RM13.84 billion at a CAGR of 7.63%; and Malaysia's wood-based home furniture export grew from RM8.71 billion to RM10.71 billion at a CAGR of 7.13%. This was mainly attributed to the US - China trade war which boosted the exports of Malaysia's furniture in 2020; the rise in global furniture e-commerce sales amidst the COVID-19 pandemic in 2020 and 2021, where the global furniture e-commerce increased at a CAGR of 17.76% from USD59.43 billion (RM246.20 billion) in 2019 to USD82.41 billion (RM341.62 billion) in 2021; and the recovery of Malaysia furniture industry following the transition into the COVID-19 endemic phase in April 2022 which have since allowed all business activities to fully resume operations.

Consumers were driven to purchase furniture online during the movement restriction and lockdown periods; and furniture retailers also increasingly adopted e-commerce as an additional distribution channel to expand their customer reach during the pandemic. From 2019 to 2021, global furniture consumption increased at a CAGR of 9.64%, from USD490.82 billion (RM2.03 trillion) to USD590.01 billion (RM2.45 trillion). During the same period, global wood-based home furniture consumption also increased from USD199.08 billion (RM0.82 trillion) to USD247.67 billion (RM1.03 trillion), at a CAGR of 11.54%. Moving forward, the furniture e-commerce market is expected to continue to grow with the continuous adoption of online shopping amongst consumers.

Further, the global demand for furniture is expected to remain strong over the longer term as furniture are essential items to support daily activities. The global demand for furniture will continue to be supported by the recovery and growth in global economic conditions, growth in global population and urbanisation, growing popularity of furniture e-commerce and increasing consumer preference for RTA furniture. SMITH ZANDER forecasts global furniture consumption to grow at a CAGR of 2.88% from USD590.01 billion (RM2.45 trillion) in 2021 to USD642.46 billion (RM2.83 trillion)⁷ in 2024, and global wood-based home furniture consumption to grow at a CAGR of 3.10% from USD247.67 billion (RM1.03 trillion) to USD271.43 billion (RM1.19 trillion) over the same period. The forecast growth is expected to benefit furniture export industry players in Malaysia as these industry players will be able to leverage on the growth in global demand for furniture to continue expanding their business. As such, SMITH ZANDER forecasts Malaysia's furniture exports to grow at a CAGR of 4.07% from RM13.84 billion in 2022 to RM14.99 billion in 2024, and Malaysia's wood-based home furniture exports to grow at a CAGR of 4.79% from RM10.71 billion in 2022 to RM11.76 billion in 2024.

⁷ Exchange rate from USD to RM for 2024 was converted based on average annual exchange rates in 2022 extracted from published information from Bank Negara Malaysia at USD1=RM4.4005.

9. RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS WHICH MAY HAVE A MATERIAL ADVERSE IMPACT ON OUR BUSINESS OPERATIONS, FINANCIAL POSITION AND THE FUTURE PERFORMANCE OF OUR GROUP, IN ADDITION TO OTHER INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, BEFORE INVESTING IN OUR COMPANY.

9.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

9.1.1 We are exposed to foreign exchange fluctuation risks which may impact our revenue and purchases

During the Financial Years Under Review, our export sales were the largest contributor to our Group's revenue at 98.21%, 96.52%, 94.37% and 94.66% respectively. We primarily exported our home furniture to the UK, United Arab Emirates, the USA and other countries. The revenue generated from our export sales are denominated in USD, GBP and CAD, and hence, we are exposed to foreign exchange fluctuation risks for these revenue. For sales to local customers in Malaysia, the revenue generated are denominated in RM. The breakdown of our revenue by currencies in the Financial Years Under Review is as follows:

Currency	FYE 31 December							
	2019		2020		2021		2022	
	RM'000	% of total revenue	RM'000	% of total revenue	RM'000	% of total revenue	RM'000	% of total revenue
RM	1,990	1.79	4,281	3.48	10,381	5.63	10,355	5.34
USD	109,492	98.21	118,610	96.52	173,911	94.37	183,550	94.56
GBP	-	-	-	-	-	-	176	0.09
CAD	-	-	-	-	-	-	12	0.01
Total revenue	111,482	100.00	122,891	100.00	184,292	100.00	194,093	100.00

Our purchases are also exposed to foreign exchange fluctuation risks arising from engaging overseas third party manufacturers who are mainly in China, Indonesia and Vietnam for the supply of finished goods (i.e. home furniture manufactured by third party manufacturers), whereby the purchase of finished goods from overseas third party manufacturers are denominated in USD and RMB. Additionally, some purchase of finished goods from local third party manufacturers in Malaysia are also denominated in USD as requested by the manufacturers. During the Financial Years Under Review, we also purchased some supplies from overseas suppliers such as furniture raw materials to be provided to our third party manufacturers for the manufacturing of our home furniture, raw materials for the assembly of our prototypes, and home furnishings, whereby these purchases were denominated in USD and RMB. Additionally, during the Financial Years Under Review, we also purchased some furniture raw materials, raw materials for the assembly of our prototypes, and/or home furnishings from local suppliers in which these purchases were denominated in RM. The breakdown of our purchases by currency for the Financial Years Under Review is as follows:

Currency	FYE 31 December							
	2019		2020		2021		2022	
	RM'000	% of total purchases	RM'000	% of total purchases	RM'000	% of total purchases	RM'000	% of total purchases
RM	48,101	55.90	60,459	63.78	84,559	58.72	89,337	60.22
USD	36,630	42.57	32,146	33.91	58,779	40.82	59,010	39.77
RMB	1,321	1.53	2,193	2.31	667	0.46	13	0.01
Total purchases	86,052	100.00	94,798	100.00	144,005	100.00	148,360	100.00

9. RISK FACTORS (CONT'D)

In the Financial Years Under Review, our transactions involving foreign exchange were predominantly denominated in USD. In circumstances where the USD significantly appreciates against the RM, we will record higher revenue and higher purchases in RM after conversion. Conversely, in circumstances where the USD significantly depreciates against the RM, we will record lower revenue and lower purchases in RM after conversion. In the event that we are unable to pass the increase in cost to our customers in a timely manner, our financial performance may be affected. While we also have transactions denominated in GBP and CAD for our export sales and RMB for our purchases, fluctuations in exchange rates between GBP/CAD/RMB and RM are not expected to have material impact to our revenue and purchases as the revenue denominated in GBP and CAD and purchases denominated in RMB are comparatively low.

For the Financial Years Under Review, our gains and losses from foreign exchange fluctuations are recorded as follows:

	FYE 31 December			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Realised gain/(loss) on foreign exchange	1,341	(798)	388	1,049
Unrealised (loss) on foreign exchange	(327)	(109)	(57)	(268)
Net gain/ (loss) on foreign exchange	1,014	(907)	331	781

As at the LPD, we do not have a formal policy with respect to our foreign exchange transactions and we do not hedge our exposure to fluctuations in foreign currency exchange rates. However, to a certain extent, we enter into foreign exchange forward contracts with banking institutions to sell the USD received from our customers. For the Financial Years Under Review, the derivative gains or losses arising from foreign exchange forward contracts were not material and were offset against realised gains or losses on foreign exchange account.

9.1.2 We are dependent on 2 of our major customers who contribute substantially to our revenue

For the FYE 31 December 2019 and FYE 31 December 2020, our largest major customer was Shop Direct Home Shopping Limited who contributed 28.36% and 30.14% to our Group's total revenue for the respective years. For the FYE 31 December 2021 and FYE 31 December 2022, Shop Direct Home Shopping Limited became our third largest major customer, with revenue contribution of 14.69% and 16.71% for the respective years. In view that Shop Direct Home Shopping Limited has been one of our major customers for the Financial Years Under Review consecutively, we are dependent on Shop Direct Home Shopping Limited.

In addition, for the FYE 31 December 2021, Hillsdale Furniture, LLC became our largest major customer who contributed 25.39% to our Group's total revenue. Further, for FYE 31 December 2022, Hillsdale Furniture, LLC became our second largest major customer who contributed 17.97% to our Group's total revenue. In view that Hillsdale Furniture, LLC has been one of our major customers starting from FYE 31 December 2021, we are dependent on Hillsdale Furniture, LLC.

Despite having 20 years and 3 years of business relationships with Shop Direct Home Shopping Limited and Hillsdale Furniture, LLC respectively, there can be no assurance that Shop Direct Home Shopping Limited and Hillsdale Furniture, LLC will continue to purchase home furniture from us, or continue to purchase a significant amount from us, given that there is no long term contract or written purchase obligations with Shop Direct Home Shopping Limited and Hillsdale Furniture, LLC as all sales are carried out on purchase order basis.

9. RISK FACTORS (CONT'D)

If Shop Direct Home Shopping Limited and/or Hillsdale Furniture, LLC decide to stop purchasing or reduce the purchase amount of home furniture from our Group by not issuing or by issuing lesser purchase orders to us, we will need to increase sales from other existing customers or secure new customers to replace the loss of sales from Shop Direct Home Shopping Limited and/or Hillsdale Furniture, LLC. As such, a loss or a significant reduction of sales from Shop Direct Home Shopping Limited and/or Hillsdale Furniture, LLC, as well as our inability to replace Shop Direct Home Shopping Limited and/or Hillsdale Furniture, LLC with new customers or with additional orders from existing customers in a timely manner, could result in a loss of revenue which may have an adverse impact on our financial performance. Moreover, even though we may be able to secure new customers, there is no assurance that we will be able to achieve the same level of sales value and maintain and/or improve our profit margins. If such adverse events occur, our financial performance may be adversely affected.

9.1.3 Our insurance coverage may not be adequate to cover all losses or liabilities that may arise in connection with our operations

We maintain insurance coverage at levels that are customary in our industry to protect against various losses and liabilities in our business operations. As at the LPD, our Group and/or landlords have taken up the following insurance policies which include:

- (a) Fire and/or allied perils insurances for our showroom and prototype assembly facility in Klang, Selangor as well as for the inventories stored at the Designated Third Party Manufacturer's Premises located in Malaysia with a total insurance coverage of RM 12.46 million;
- (b) Public liability insurance with insurance coverage of RM1.00 million for our Warehouse, showroom and prototype assembly facility in Klang, Selangor and headquarters in Shah Alam, Selangor;
- (c) Product liability insurance with insurance coverage of RM8.40 million for home furniture sold through Customer C Group's e-commerce platforms in the USA, Canada and the UK and Amazon as requested by Customer C Group and Amazon;
- (d) Marine cargo insurance with Customer C Group for our home furniture products while in transit to the USA, Canada and the UK and while in storage at the third party e-commerce fulfilment centres in the USA, Canada and the UK; and
- (e) Group personal accident insurance for our employees as well as hospitalisation and surgical insurance for our foreign workers. The total insurance coverage for all our employees (including foreign workers) is cumulatively RM17.35 million.

As set out in Section 7.4 of this Prospectus, we have utilised third party e-commerce fulfilment centres including for Customer C Group and Amazon. We have insurance policy for inventories stored in the fulfilment centres of Customer C Group. This is covered under our Group's marine cargo insurance as set out in item (d) above. As for Amazon, pursuant to Amazon and 1 of our Appointed Third Party Logistics Service Providers' (i.e. a third party who we engage to store our inventory and fulfil customer orders placed on Amazon's e-commerce platforms in the USA and the UK) respective inventory reimbursement policies, Amazon or our Appointed Third Party Logistics Service Provider will replace or reimburse our Group for any lost or damaged goods stored at their respective facilities or by logistics arranged by Amazon or our Appointed Third Party Logistics Service Provider.

9. RISK FACTORS (CONT'D)

As these insurance coverages are subject to exclusions and limitations of liability both in amount and with respect to the insured events, our insurance may not be adequate to cover all losses or liabilities that might be incurred in our operations as a result of any unforeseen circumstances. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our business operations and financial performance. Moreover, we will be subject to the risk that, in the future, we may not be able to maintain or obtain insurance of the type and amount desired at reasonable rates. In the Financial Years Under Review and up to the LPD, our Group did not encounter any events that resulted in any insurance claims.

9.1.4 We are dependent on third party manufacturers for the manufacturing of our home furniture

Our Group focuses on the design, development and sale of home furniture. We outsource all manufacturing works for our home furniture to third party manufacturers where they are responsible for the purchasing of raw materials, manufacturing and packaging of our home furniture in accordance to our designs, specifications and requirements. As such, our Group's business operations are dependent on the services of our third party manufacturers. In the Financial Years Under Review and up until the LPD, we have engaged approximately 57 third party manufacturers cumulatively for the manufacturing of our home furniture.

For FYE 31 December 2019, FYE 31 December 2020 and FYE 31 December 2021, we were dependent on 3 third party manufacturers who were our major suppliers namely, P.T. Galangcitramitra Majumapan, Piau Chez Sdn Bhd and Grand Victory Furniture Sdn Bhd who collectively contributed approximately 60.23%, 66.21% and 48.30% to our total purchases for the respective financial years. In the FYE 31 December 2022, we were dependent on 2 of our major suppliers, namely Piau Chez Sdn Bhd and Grand Victory Furniture Sdn Bhd who collectively contributed approximately 46.48% to our total purchases. Please refer to Section 7.16 of this Prospectus for further details of our major suppliers. In the event of any significant loss of the services of these third party manufacturers without suitable and timely replacements, this may lead to interruptions in fulfilling our orders and delivering home furniture to our customers, which will thus create unfavourable impact on our Group's operations, financial performance and reputation. In addition, as disclosed in Section 7.4 of this Prospectus, we store our inventory for our local B2C sales at our Designated Third Party Manufacturer's Premises.

Moreover, as our third party manufacturers are responsible for materials purchasing and manufacturing of our home furniture using their in-house labour, any significant increases in manufacturing costs charged by them due to increases in the raw material prices arising from amongst others, increase in commodity prices and shipping costs; and/or labour costs may impact our cost of sales. In the Financial Years Under Review, our manufacturing costs (i.e. comprising mainly our third party manufacturing costs for our home furniture, purchase of raw material costs, freight cost in relation to our overseas B2C business, warehouse and handling charges as well as import-related charges) accounted for 96.45%, 96.19%, 97.19% and 96.68% of our total cost of sales for the FYE 31 December 2019, FYE 31 December 2020, FYE 31 December 2021 and FYE 31 December 2022 respectively. If we are unable to pass the increase in manufacturing costs to our customers, this will impact our GP margin and may in turn negatively impact our financial performance.

Further, our third party manufacturers may also experience financial difficulties, resource constraints or other difficulties which may affect their ability to carry out the manufacturing works for our home furniture, thereby resulting in delays to the fulfilment of orders and delivery of products to our customers. This may result in loss and damages against our Group, and may eventually negatively impact the overall operations, financial performance and reputation of our Group.

9. RISK FACTORS (CONT'D)

Save for the delays in fulfilling some orders in FYE 31 December 2021 due to the temporary closure of operations of some of our third party manufacturers resulted from the COVID-19 pandemic, and shortages and delays in shipment of raw materials from overseas suppliers resulting from global supply chain disruptions as set out in Section 7.17 of this Prospectus, we have not experienced any other major disruptions to our business operations as a result of our dependence on third party manufacturers.

9.1.5 We are subject to regulatory requirements for our business operations

Our business is subject to various laws, rules and regulations. We have obtained the necessary major licences, permits and approvals from the relevant governmental authorities and issuers for our business as set out in Section 7.24 of this Prospectus.

We are required to obtain a Certificate of Registration granted pursuant to Section 13 of the MTIB Act as a registered exporter to export our home furniture. Our current Certificate of Registration for SH Furniture and SK Furniture Industries were effective from 31 March 2021 and 30 March 2021 respectively, and both are valid up to 31 March 2025.

There can be no assurance that we will not be subject to suspension, revocation or termination of our major licences, permits or approvals in the event of non-compliance with any terms or conditions thereof, or pursuant to any regulatory action, despite our best efforts to adhere to the regulatory requirements. While we have not encountered any difficulties in obtaining, renewing or maintaining our major licences, permits and approvals for our business operations, there can be no assurance that we will be able to renew such licences, permits and approvals in a timely manner or at all in the future. Any failure to renew or maintain our major licences, permits and approvals in the future could materially and adversely affect our business, financial condition, results of operations and prospects.

Section 3(1) of the Wood-Based Enactment provides that no person shall site, construct, erect, establish, operate or maintain a wood-based industry, except under and in accordance with a licence issued by the state authority and signed by the State Director of Forestry. Given that our Group assembles prototypes of wooden home furniture as samples for our customers, a Wood-Based Industry Licence is required by our Group.

Notwithstanding our Group had previously operated without a licence prescribed under the Wood-Based Enactment ("**Past Non-Compliance**"), our Group had on 20 December 2021 obtained the Wood-Based Industry Licence with validity period of 1 January 2021 to 31 December 2022. Subsequently, our Group has further renewed and obtained the Wood-Based Industry Licence with validity period of 1 January 2023 to 31 December 2023. The Selangor Forestry Department had not imposed any penalty for our Past Non-Compliance when issuing the Wood-Based Industry Licence to us. While we recognise that our Past Non-Compliance could still result in a potential prosecution under the Wood-Based Enactment, we believe that the likelihood of prosecution is low in view that no penalty was imposed during the application and after the assessment process of the Wood-Based Industry Licence.

In addition, we may be required to comply with further requirements if there are any changes to applicable legislations, regulations and/or policies in Malaysia. This may affect our business operations and financial condition if we are unable to comply with the new legislations, regulations and/or policies.

9. RISK FACTORS (CONT'D)

9.1.6 Our business and operations are exposed to sudden disruptions caused by severe disease outbreaks such as the COVID-19 pandemic

Our business and operations are subject to sudden disruptions caused by severe disease outbreaks in Malaysia and the countries we transact with.

On 11 March 2020, the COVID-19, also known as the coronavirus disease 2019, was declared a worldwide pandemic by the World Health Organization. In efforts to curb the spread of the COVID-19, precautionary measures were taken by government authorities around the world as well as by our third party manufacturers and customers which had consequently impacted our business and operations.

Pursuant to the implementation of Phase 1 of the NRP by the Government on 1 June 2021 to curb the spread of COVID-19, our business and operations in Malaysia were affected by the movement restrictions imposed by the Government, where our premises (i.e. our headquarters in Shah Alam, Selangor, and prototype assembly facility in Klang, Selangor) in Malaysia were temporarily closed and resumed operations upon receiving an approval letter from MITI on 5 July 2021 and subject to compliance with the Government's SOP. Further, our showroom was temporarily closed since 18 March 2020 due to the movement restrictions imposed by the Government, the absence of our overseas customers visiting our showroom due to the closure of borders of our customers' respective countries as well as absence of a new CCC for our showroom after carrying out alteration and renovation works to our showroom. Please refer to Section 6.8.1 of this Prospectus for further details on the CCC of our showroom. Nonetheless, on 3 February 2023, our Group was issued with a new CCC for our showroom. Following the issuance of new CCC, our Group commenced the process of applying for a business premise licence for the showroom and the application was accepted by Majlis Perbandaran Klang on 28 April 2023. As the application is currently being processed and the business premise licence is pending issuance, our showroom is currently not being utilised and will only be reopened after the business premise licence has been obtained. Please refer to Section 7.21 of this Prospectus for further details on the business premise licence of the showroom. Additionally, our third party manufacturers in Malaysia were unable to operate at certain period of time in 2021 due to the imposition of movement restrictions by the Government which led to a temporary halt on their manufacturing operations. Due to the temporary closure of the operations of some of our third party manufacturers resulted from the COVID-19 pandemic, as well as shortages and delays in shipment of raw materials from overseas suppliers resulting from global supply chain disruptions, we experienced a delay in fulfilling our customers' orders in the B2B segment. In FYE 31 December 2021, the delivery of 52 orders amounting to RM15.16 million were delayed and were gradually fulfilled by the first quarter of FYE 31 December 2022.

In view of the COVID-19 pandemic, we also received requests from overseas customers to defer the delivery of 159 orders amounting to RM23.66 million in FYE 31 December 2021 due to factors such as increasing shipping costs and overstock of home furniture in our customers' premises. All of these orders were fulfilled by the first half of FYE 31 December 2022. Further, we also received order cancellations from our overseas customers for 151 orders amounting to RM21.62 million in FYE 31 December 2021.

Any prolonged disruption to our business and operations will materially affect our ability to fulfil orders on a timely basis which will lead to a negative impact on our revenue recognition and financial performance. Please refer to Section 7.17 of this Prospectus for further details on the interruptions to our business and operations caused by the COVID-19 pandemic.

9. RISK FACTORS (CONT'D)

In terms of our sales and marketing activities, in view of the closure of our country's borders by the Government from 18 March 2020 to 31 March 2022 as well as the closure of borders in other countries by their respective government authorities since early 2020 to curb the spread of COVID-19, our overseas customers were unable to travel to Malaysia to visit our showroom and we have not been utilising our showroom since March 2020. Additionally, we were unable to participate/visit any local or international trade exhibitions as an exhibitor or visitor to promote our home furniture since March 2020 up to March 2022 due to the imposition of movement restrictions by the Government as well as overseas countries. This had affected our business opportunities in attracting more customers and to increase the demand for our home furniture.

As Malaysia transitions from COVID-19 pandemic to endemic since 1 April 2022, there has been no impact to our business operations as all our third party manufacturers are operating as usual, hence we do not expect delay in fulfilling our customers' orders. However, there can be no assurance that there will not be any requests from customers to defer delivery or cancel orders. Further, we have continued to visit and participate in third party trade fairs and exhibitions in Malaysia and overseas, hence there has been no impact to our sales and marketing activities. In the event of any future pandemic outbreaks, as well as epidemic outbreaks are to occur, this may result in similar interruptions to our Group's business and operations, which may subsequently have a negative impact on our financial performance.

9.1.7 Our business may be affected by evolving market trends and consumer preferences on home furniture designs

Furniture is a consumer product and is susceptible to changing market trends and consumer preferences. As we export our home furniture to numerous countries, it is crucial that we have a wide variety of designs, and we are able to respond to changes in market trends and consumer preferences, to suit the unique requirements of the consumers from different countries. As a result of these evolving market trends and consumer preferences, we face the risk that our D&D team may not be able to respond promptly to these changes and provide innovative designs in a timely manner.

Further, there is no assurance that any or all of our home furniture designs will be well accepted by our customers at all times. Any failure to keep up with market demands and delays and/or inability to launch innovative designs may result in a loss of customers, which may consequently lead to an adverse effect on our business and financial performance.

9.1.8 We are dependent on our Executive Directors and Key Senior Management for the future growth and continuing success of our business

The future growth and continuing success of our Group largely depend on the continuous contribution and involvement of our Executive Directors and Key Senior Management. Our Executive Directors, Tan Eu Tah and Teh Yee Luen, are responsible in steering the overall strategic direction of our Group. With their experience and in-depth knowledge in the furniture industry and our business, they play a pivotal role in formulating and implementing business strategies and policies to drive future development and growth of our Group. Further, our Key Senior Management are equipped with the relevant knowledge and skills in their respective fields of work to ensure the smooth operation of our business.

We recognise that our Group's future growth and continuing success depend significantly on the capabilities and continuing efforts of our Executive Directors and Key Senior Management. As such, any significant loss of the services of our Executive Directors and Key Senior Management without suitable and timely replacements may create unfavourable impact on our Group's operations, financial performance and future growth of our business.

9. RISK FACTORS (CONT'D)

9.1.9 We may not be able to successfully implement our business strategies

Among our business strategies set out in Section 7.19 of this Prospectus, the key business strategy is to grow our business by further expanding our customer reach in the B2C sales segment by listing and selling our products on third party e-commerce platforms with new market focus, as well as setting up new warehouses in Muar, Johor and Port Klang, Selangor as e-commerce fulfilment centres to support the anticipated increase in our B2C sales from other countries such as the USA, Canada and the UK as well as locally. We also plan to increase our inventory holding in third party e-commerce fulfilment centres located in overseas countries and our Proposed New Muar Warehouse to continue growing our sales in the B2C segment. Further, we also intend to implement advertising and promotional strategies to enhance our revenue for our B2C sales.

The execution of this business strategy is subject to additional expenditures including inventory holding costs, sales and marketing expenses, warehouse maintenance costs, staff costs and other working capital requirements. Such additional expenditures will increase our Group's operational cost including our overhead costs, and may adversely affect our profit margin if we are unable to gain sufficient revenue by increasing our sales from B2C sales segment. In addition, the implementation of this business strategy may also be influenced by various factors beyond our control, such as changes in economic conditions and social and political environments in Malaysia as well as other countries such as the USA, Canada and the UK which may affect the commercial viability of our business strategy. Further, the success of our business strategy could also be adversely affected by other factors such as entrants of new competitors, which may affect the attractiveness of our home furniture.

Hence, there is no assurance that we will be successful in executing our business strategy, nor can we assure that we will be able to anticipate all business, operational and industry risks arising from our business strategy. In the event that we are unable to manage our expansion plans and the related risks and costs, such failure may adversely affect our business operations and financial performance.

9.1.10 We are subject to credit risk and default payment by our customers

Our financial performance is dependent, to a certain extent, on the creditworthiness of our customers. If circumstances arise that affect our customers' ability or willingness to pay us, we may experience payment delays or in worst cases, we may not be able to collect payment from our customers. We generally grant our customers credit periods of up to 120 days. Should there be a delay or default in payment, our operating cash flows and financial results may be adversely affected.

Despite closely monitoring our customers' payment track record and making timely reminders when necessary, there can be no guarantee that our customers will be able to fulfil their payment obligations. For the Financial Years Under Review and up to the LPD, our Group has not experienced any instances of significant bad debts or doubtful debts. However, there is no assurance that our customers will continue to maintain their positive payment records in the future.

9.1.11 The absence of long term contracts with customers may result in the fluctuation of our Group's financial performance

We do not enter into any long term contracts with our customers as our customers, primarily B2B customers, purchase home furniture from us by way of purchase orders. The absence of long term contracts is mainly due to the nature of our business where the designs of our home furniture vary according to the market trends and consumer preferences in various countries from time to time. Thus, the demand for our home furniture is also subject to our customers' design preferences of home furniture during a particular period of time.

9. RISK FACTORS (CONT'D)

Given that we do not have any long term contracts with our customers, we are exposed to the risk of losing our existing customers as our customers are not obliged to purchase home furniture from us and they are allowed to cease their purchase from us at any time. In the event if we lose any of our customers, particularly our major customers, as well as being unable to secure additional sales from existing customers or secure new customers in a timely manner, our financial performance may be adversely affected.

While our Group continuously seek to ensure customer satisfaction by improving our product designs, maintaining and strengthening existing business relationships as well as establishing relationships with new customers to grow our clientele base, any external factors such as adverse economic conditions, significant price reduction by our competitors or slowdown in the demand for furniture may negatively impact our sales in view of the absence of long term contracts, which will subsequently negatively impact the financial performance of our Group.

9.1.12 We may be adversely affected by product defects caused by our third party manufacturers or logistics service providers, which may lead to product liability claims

While all manufacturing works for our home furniture are outsourced to our third party manufacturers, our Group is ultimately responsible for the quality of our home furniture. As such, we are susceptible to impacts resulting from product liability claims for manufacturing defects by our customers. To ensure the quality of home furniture manufactured by our third party manufacturers, we have imposed QC procedures at every crucial stage of their manufacturing workflow and regularly conduct on-site quality checks on their manufacturing workflow. However, we cannot assure or guarantee that there will be no defects in the home furniture manufactured by our third party manufacturers. Further, our products are also susceptible to improper handling by third parties such as logistics service providers during the storage and delivery processes which we are unable to assure that there will be no defects in the home furniture delivered to our customers.

For our sales to B2B customers, it is common practice for our Group to not have a warranty policy against defects for our products. In cases where our customers notify us about any defects such as scratches or broken parts, we will first investigate the cause(s) of the defects and liaise with the party responsible, which may be the third party manufacturer and/or logistics service provider. Further details on warranty are set out in Section 7.2.3 of this Prospectus.

For our sales to B2C customers (i.e. end-consumers), our Group adheres to the return and refund policies of the respective third party e-commerce platforms that we market and sell our products in. Further, we have also established a return and refund policy for our in-house online store at *www.synergytomato.com*. In cases where our customers request for a refund and/or return of our products through the third party e-commerce platforms and / or our in-house online store at *www.synergytomato.com* due to reasons such as product defects, receipt of incomplete or wrong orders and/or change of mind, a refund and/or a return will be given to our customers subject to the terms and conditions of the respective third party e-commerce platforms and/or our approval. Further, we may also provide replacement of our products to our customers due to reasons such as product defects, and receipt of incomplete or wrong orders. Further details on warranty are set out in Section 7.2.3 of this Prospectus. If the requests for product refund and/or return from our customers are not resolved in a timely and satisfactory manner and such incidences occur repeatedly, this may negatively impact our reputation in the industry and/or among the B2C consumer market which may lead to potential loss of sales.

9. RISK FACTORS (CONT'D)

Additionally, in the event our products are proven to be defective, causing our customers to suffer from any injury, loss or damages, we may be liable to product liability claims under the Malaysian law or laws of other jurisdictions which may be applicable to our Group. As such, notwithstanding the outcome of the claims, we may be subject to significant legal costs. Any successful product liability claim against our Group will adversely affect our Group's business and reputation in the industry which may subsequently negatively impact our financial performance. Further, if we are able to successfully defend such claim, there can also be no assurance that we will not face a loss of confidence in our products by our customers. In the Financial Years Under Review and up to the LPD, there was no such product liability claims against our Group.

9.1.13 Our Warehouse is subject to regulatory requirements imposed by the Fire and Rescue Department of Malaysia for which the past non-compliance may expose us to penalties and other costs

We own the Warehouse located at No. 7, Jalan Astana 1F/KU2, Bandar Bukit Raja, 41050 Klang, Selangor. As at the LPD, the Warehouse is not in use as we have relocated all our inventories stored at the Warehouse to the Designated Third Party Manufacturer's Premises located in Malaysia.

Prior to 30 March 2023, the Warehouse was used by our Group to store inventories for our local B2C sales. However, although our Warehouse was regarded as a designated premises pursuant to the Fire Services (Designated Premises) Order 1988, it has not been issued a fire certificate ("**Fire Certificate**") as required under section 33 of the Fire Services Act 1988 ("**FSA**").

Our Group has made relevant submissions to Bomba in order to obtain the Fire Certificate and as at the LPD, Bomba is in the midst of processing our submissions. While we have taken all reasonable steps to obtain the Fire Certificate, including appointing professionals to advise and prepare the application to Bomba, as well as meeting Bomba for follow-ups and consultation, there can be no assurance that the Fire Certificate can be obtained. Please refer to Section 6.8.1 of this Prospectus for further details on the status of the Fire Certificate application for the Warehouse.

We recognise that operating the Warehouse in the past without a Fire Certificate was in breach of the FSA. In the event of a conviction under the FSA, we may be subject to a maximum fine of RM50,000 or imprisonment of a term not exceeding 5 years or both. Although we have not been penalised for operating our Warehouse in the past without a Fire Certificate, there can be no assurance that we will not be subjected to penalties in respect of the past non-compliance in the future.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We may be adversely affected by political, economic, legal and social conditions in Malaysia and the countries where we export our products to

During the Financial Years Under Review, we primarily exported our home furniture to the UK, United Arab Emirates, the USA and other countries. Our sales from exports contributed significantly to our total revenue at 98.21%, 96.52%, 94.37% and 94.66% for FYE 31 December 2019, FYE 31 December 2020, FYE 31 December 2021 and FYE 31 December 2022 respectively. As we continue to expand our business and export markets, our business operations are expected to be increasingly affected by political, economic, legal and social conditions in Malaysia as well as countries that we export our home furniture to.

9. RISK FACTORS (CONT'D)

Risks that we are exposed to include, amongst others, changes in government or regulatory policies such as tax rates and interest rates, unstable economic conditions, changes in political leadership and wars. For the FYE 31 December 2021, our Group was affected by the COVID-19 pandemic which temporarily affected the economic and social conditions in Malaysia and countries where we export our products to. Please refer to Section 7.17 of this Prospectus for further details on the impact to our Group arising from the COVID-19 pandemic.

These aforementioned events are beyond our control and thus we cannot assure that there would not be such occurrences in the future. Therefore, any unfavourable changes in political, economic, legal and social conditions in Malaysia and the countries we export to, may cause significant disruptions to our business operations and/or impact our financial performance.

9.2.2 We face competition risk due to the competitive and fragmented nature of the furniture industry

We operate in a competitive and fragmented furniture industry in Malaysia due to the large number of industry players including public listed companies, large private companies as well as small to medium enterprises. The industry players in the furniture industry in Malaysia are involved in the design, development and/or manufacturing of furniture. Some industry players may cover the entire process from design and development to manufacturing of their own products, while some industry players may outsource certain processes, i.e. either design and development, or manufacturing, to external parties. We compete with companies in Malaysia which are involved in the design, manufacturing and/or export of wood-based home furniture. We compete with these players in terms of, amongst others, product designs, range of product offerings, product quality, quick lead and delivery times, and competitive pricing.

Apart from the existing industry players, we may also face competition from new entrants. If we fail to remain competitive in the industry, our financial performance will be adversely impacted and it may also affect the sustainability of our business.

9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES**9.3.1 No prior market for our Shares and it is uncertain whether a sustainable market will ever develop**

Prior to our IPO, there has been no public shares for our Shares. Hence, there is no assurance that upon Listing, an active market for our Shares will develop, or if developed, that such a market will be sustainable. There is also no assurance as to the liquidity of any market that may develop for our Shares, the ability of holders to sell our Shares or the selling prices at which holders would be able to obtain for our Shares.

We, our Promoters and the Selling Shareholder have no obligation to cause our Shares to be marketable. The IPO Price was determined after taking into consideration various factors and these factors could cause our Share price to fluctuate which may adversely affect the market price of our Shares.

There can be no assurance that the IPO Price will correspond to the price at which our Shares will trade on the ACE Market upon our Listing and that the market price of our Shares will not decline below the Issue Price.

9. RISK FACTORS (CONT'D)

9.3.2 Capital market risks and share price volatility

The performance of capital market is very much dependent on external factors such as the performance of the regional and global stock market and the inflow or outflow of foreign funds. Sentiment is also largely driven by internal factors such as 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 in capital market, thus adding risks to the market price of our listed Shares. Nevertheless, the profitability of our Group is not dependent on the performance of the capital market as the business activities of our Group have no direct correlation with the performance of securities listed in the capital market.

Our Shares could trade at prices lower than the IPO Price depending on various factors, including current economic, financial and fiscal condition in Malaysia, our operations and financial results and the price volatility in the markets for securities in similar or related industry in Malaysia or emerging markets. There is no assurance that any market for our Shares will not be disrupted by price volatility or other factors, which may have a material adverse effect on the market price of our Shares.

In addition, the market price of our Shares may be highly volatile and could fluctuate significantly and rapidly in response to, amongst others, the following factors, some of which are beyond our control:

- (i) variation in our results and operations;
- (ii) success or failure in our management team in implementing business and growth strategies;
- (iii) changes in securities analysts' recommendations, perceptions or estimates of our financial performance;
- (iv) changes in conditions affecting the industry, the general economic conditions or stock market sentiments or other events and factors;
- (v) additions or departures of our key management personnel;
- (vi) fluctuations in stock market prices and volumes; or
- (vii) involvement in litigation.

In addition, many of the risks described herein could materially and adversely affect the market price of our Shares. Furthermore, if the trading volume of our Shares is low, price fluctuation may be exacerbated. Accordingly, there can be no assurance that our Shares will not trade lower than the original IPO price of our Shares.

9.3.3 Our Promoters will be able to exert significant influence over our Company as they will continue to hold majority of our Shares after the IPO

As disclosed in Section 5.1.1 of this Prospectus, our Promoters will collectively hold in aggregate 74.00% of our enlarged issued share capital after our Listing. As a result, they will be able to, in the foreseeable future, effectively control the business direction and management of our Group as well as having voting control over our Group and as such, will likely influence the outcome of certain matters requiring the vote of our shareholders, unless they are required to abstain from voting either by law and/or by the relevant guidelines or regulations. There can be no assurance that the interests of our Promoters will be aligned with those of our other shareholders.

9. RISK FACTORS (CONT'D)

9.3.4 The sale or the possible sale of a substantial number of Shares in the public market following our IPO could adversely affect the price of our Shares

Following the completion of our IPO and Listing, 25.80% of our enlarged issued share capital will be publicly held by investors participating in our IPO, while 74.00% of our enlarged issued share capital will be held by our Promoters.

It is possible that our Promoters may dispose of some or all of their Shares after their respective moratorium period, pursuant to their own investment objectives. If our Promoters sell, or are perceived as intending to sell, a substantial amount of our Shares, the market price of our Shares could be adversely affected.

9.3.5 Delay in or cancellation of our Listing

- (i) The occurrence of certain events, including the following, may cause a delay in or termination of our Listing:
 - (a) our Underwriter exercising their rights pursuant to the Underwriting Agreement to discharge themselves from its obligations under such agreement;
 - (b) our inability to meet the minimum public spread requirement under the Listing Requirements of having at least 25.00% of the total number of our Shares for which our Listing is sought being in the hands of at least 200 public shareholders holding at least 100 Shares each at the point of our Listing; or
 - (c) the revocation of the approvals from the relevant authorities for our Listing for whatever reason.
- (ii) Where prior to the issuance and allotment of our IPO Shares:
 - (a) the SC issues a stop order pursuant to Section 245(1) of the CMSA, the applications shall be deemed to be withdrawn and cancelled and our Company shall repay all monies paid in respect of the applications for our Issue Shares within 14 days of the stop order, failing which we shall be liable to return such monies with interest at the rate of 10.00% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(a) of the CMSA; or
 - (b) our Listing is aborted, investors will not receive any of our Issue Shares, all monies paid in respect of all applications for our Issue Shares will be refunded free of interest within 14 days.
- (iii) Where subsequent to the issuance and allotment of our IPO Shares:
 - (a) the SC issues a stop order pursuant to Section 245(1) of the CMSA, any issue of our Issue Shares shall be redeemed to be void and all monies received from the applicants shall be forthwith repaid and if any such money is not repaid within 14 days of the date of service of the stop order, we shall be liable to return such monies with interest at the rate of 10.00% per annum or at such other rate as may be specified by the SC pursuant to Section 245(7)(b) of the CMSA; or
 - (b) our Listing is aborted other than pursuant to a stop order by the SC, a return of monies to our shareholders could only be achieved by way of a cancellation of share capital as provided under the Act and its related rules to the extent that our Issue Shares form part of our share capital. Such cancellation can be implemented by either:

9. RISK FACTORS (CONT'D)

- (aa) the sanction of our shareholders by special resolution in a general meeting, consent by our creditors (unless dispensation with such consent has been granted by the High Court of Malaya) and the confirmation of the High Court of Malaya in which case there can be no assurance that such monies can be returned within a short period of time or at all under such circumstances; or
- (bb) the sanction of our shareholders by special resolution in a general meeting supported by a solvency statement from the directors.

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10. RELATED PARTY TRANSACTIONS

10.1 RELATED PARTY TRANSACTIONS

Pursuant to the Listing Requirements, subject to certain exemptions, a “related party transaction” is a transaction entered into by a listed issuer or its subsidiary, which involves the interest, direct or indirect, of a related party. A “related party” is defined as a director, major shareholder or person connected with such director or major shareholder (including a director or major shareholder within the preceding 6 months before the transaction was entered into). “Major shareholder” means a shareholder with a shareholding of 10% or more (or 5% or more where such person is the largest shareholder in the company) of all the voting shares in the company.

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10. RELATED PARTY TRANSACTIONS (CONT'D)

10.1.1 Our Group's Related Party Transactions

Save as disclosed below, our Group has not entered into nor proposes to enter into any material related party transactions for the Financial Years Under Review, and for the subsequent financial period up to the LPD:

No.	Transacting parties	Nature of relationship	Nature of transaction	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	FYE 31 December 2021 RM'000	FYE 31 December 2022 RM'000	From 1 January 2023 up to the LPD RM'000
(i)	SH Furniture and Factory Master Sdn Bhd ("Factory Master")	Interested Directors • Tan Eu Tah • Teh Yee Luen	Provision of accounting services by SH Furniture to Factory Master.	6.00 (0.06% of our Group's PAT)	3.60 (0.03% of our Group's PAT)	-	-	-
		Interested substantial shareholders • Tan Eu Tah • Teh Yee Luen	Purchase of goods by SH Furniture from Factory Master.	0.3 (less than 0.01% of our Group's PAT)	-	-	-	-
		Refer to Note (1) for details of their relationship with our Director and substantial shareholders.	Payment of software subscription fee by Factory Master to SH Furniture.	1.00 (0.01% of our Group's PAT)	0.58 (less than 0.01% of our Group's PAT)	-	-	-
			Provision of home furniture sourcing, development and inspection services by Factory Master to SH Furniture.	168.16 (0.19% of our Group's cost of sales)	81.58 (0.08% of our Group's cost of sales)	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Nature of relationship	Nature of transaction	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	FYE 31 December 2021 RM'000	FYE 31 December 2022 RM'000	From 1 January 2023 up to the LPD RM'000
(ii)	SH Furniture and JBP Development Sdn Bhd ("JBP Development")	Interested Directors • Tan Eu Tah • Teh Yee Luen Interested substantial shareholders • Tan Eu Tah • Teh Yee Luen	Rental of property by SH Furniture from JBP Development for use as storage. ⁽⁵⁾	15.20 (0.14% of our Group's PAT)	24.33 (0.20% of our Group's PAT)	37.10 (0.26% of our Group's PAT)	31.80 (0.19% of our Group's PAT)	10.60
		Refer to Note (2) for details of their relationship with our Directors and substantial shareholders.						
(iii)	SH Furniture and Southampton Property	Interested Directors • Tan Eu Tah • Teh Yee Luen Interested substantial shareholders • Tan Eu Tah • Teh Yee Luen	Provision of accounting services by SH Furniture to Southampton Property. Rental of property by SH Furniture from Southampton Property for use as storage. ⁽⁶⁾ Rental of property by SH Furniture from Southampton Property for use as storage. ⁽⁷⁾	3.60 (0.03% of our Group's PAT) 2.70 (0.02% of our Group's PAT)	3.60 (0.03% of our Group's PAT) 26.30 (0.22% of our Group's PAT) 2.50 (0.02% of our Group's PAT)	3.00 (0.02% of our Group's PAT)	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Nature of relationship	Nature of transaction	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	FYE 31 December 2021 RM'000	FYE 31 December 2022 RM'000	From 1 January 2023 up to the LPD RM'000
			Rental of properties by SH Furniture from Southampton Property for use as showroom. ⁽⁸⁾	226.80 (2.08% of our Group's PAT)	-	-	-	-
			Rental of properties by SH Furniture from Southampton Property for use as prototype assembly facility. ⁽⁹⁾	120.00 (1.10% of our Group's PAT)	127.20 (1.05% of our Group's PAT)	127.20 (0.88% of our Group's PAT)	63.60 (0.38% of our Group's PAT)	-
			Rental of property by SH Furniture from Southampton Property for use as hostel. ⁽⁹⁾	7.20 (0.07% of our Group's PAT)	8.40 (0.07% of our Group's PAT)	8.40 (0.06% of our Group's PAT)	4.20 (0.03% of our Group's PAT)	-
			Purchase of property by SH Furniture from Southampton Property for use as warehouse. ⁽¹⁰⁾	-	20,000.00 (99.05% of our Group's NA)	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Nature of relationship	Nature of transaction	FYE 31 December 2019	FYE 31 December 2020	FYE 31 December 2021	FYE 31 December 2022	From 1 January 2023 up to the LPD
				RM'000	RM'000	RM'000	RM'000	RM'000
			Deposit for purchase of properties by SH Furniture from Southampton Property for use as showroom and prototype assembly facility. ⁽¹¹⁾	-	500.00 (2.48% of our Group's NA)	-	-	-
			Payment of balance purchase consideration by SH Furniture to Southampton Property in respect of the purchase of properties for use as showroom and prototype assembly facility. ⁽²⁰⁾	-	-	-	6,990.00 (15.08% of our Group's NA)	-
			Interest income from advances to Southampton Property	275.87 (2.50% of our Group's PAT)	205.65 (1.70% of our Group's PAT)	126.09 (0.88% of our Group's PAT)	81.73 (0.49% of our Group's PAT)	-
			Rental of properties by SH Furniture from Southampton Property for use as storage. ⁽¹⁸⁾	-	-	-	63.60 (0.38% of our Group's PAT)	21.20

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Nature of relationship	Nature of transaction	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	FYE 31 December 2021 RM'000	FYE 31 December 2022 RM'000	From 1 January 2023 up to the LPD RM'000
			Rental of property by SH Furniture from Southampton Property for use as hostel. ⁽¹⁹⁾	-	-	-	4.20 (0.03% of our Group's PAT)	2.80
(iv)	SH Furniture and Camden Concept	Interested Directors <ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen Interested substantial shareholders <ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen Refer to Note (4) for details of their relationship with our Directors and substantial shareholders.	Payment of software subscription fee by Camden Concept to SH Furniture. Provision of home furniture sourcing, development and inspection services by Camden Concept to SH Furniture.	1.00 (0.01% of our Group's PAT)	0.58 (less than 0.01% of our Group's PAT)	-	-	-
				30.09 (0.03% of our Group's cost of sales)	38.93 (0.04% of our Group's cost of sales)	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Nature of relationship	Nature of transaction	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	FYE 31 December 2021 RM'000	FYE 31 December 2022 RM'000	From 1 January 2023 up to the LPD RM'000
(v)	SH Furniture and SH Holdings	Interested Directors	Payment of interest income by SH Holdings to SH Furniture.	-	195.23 (1.61% of our Group's PAT)	-	-	-
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen 						
		Interested substantial shareholders						
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen 						
		Refer to Note (17) for details of their relationship with our Directors and substantial shareholders.						

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Nature of relationship	Nature of transaction	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	FYE 31 December 2021 RM'000	FYE 31 December 2022 RM'000	From 1 January 2023 up to the LPD RM'000
(vi)	SK Furniture Industries and Southampton Property	Interested Directors • Tan Eu Tah • Teh Yee Luen Interested substantial shareholders • Tan Eu Tah • Teh Yee Luen Refer to Note (3) for details of their relationship with our Directors and substantial shareholders.	Rental of properties by SK Furniture Industries from Southampton Property for use as showroom ⁽¹²⁾ pending completion of the sale and purchase agreements as set out in Note (11) below.	226.80 (2.08% of our Group's PAT)	478.80 (3.95% of our Group's PAT)	394.00 (2.74% of our Group's PAT)	239.40 (1.44% of our Group's PAT)	-
(vii)	SK Furniture Industries and Camden Concept	Interested Directors • Tan Eu Tah • Teh Yee Luen Interested substantial shareholders • Tan Eu Tah • Teh Yee Luen Refer to Note (4) for details of their relationship with our Directors and substantial shareholders.	Provision of home furniture sourcing, development and inspection services by Camden Concept to SK Furniture Industries.	74.80 (0.08% of our Group's cost of sales)	81.18 (0.08% of our Group's cost of sales)	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Nature of relationship	Nature of transaction	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	FYE 31 December 2021 RM'000	FYE 31 December 2022 RM'000	From 1 January 2023 up to the LPD RM'000
(viii)	SK Furniture Industries and SH Holdings	Interested Directors <ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen Interested substantial shareholders <ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen Refer to Note (17) for details of their relationship with our Directors and substantial shareholders.	Payment of interest income by SH Holdings to SK Furniture Industries.	-	-	114.69 (0.80% of our Group's PAT)	-	-
(ix)	SH International and Factory Master	Interested Directors <ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen 	Purchase of goods by SH International from Factory Master.	1.30 (0.01% of our Group's PAT)	12.49 (0.10% of our Group's PAT)	0.20 (less than 0.01% of our Group's PAT)	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Nature of relationship	Nature of transaction	FYE 31 December 2019 RM'000	FYE 31 December 2020 RM'000	FYE 31 December 2021 RM'000	FYE 31 December 2022 RM'000	From 1 January 2023 up to the LPD RM'000
		Interested substantial shareholders	Provision of home furniture sourcing, development and inspection services by Factory Master to SH International.	13.32 (0.01% of our Group's cost of sales)	6.49 (0.01% of our Group's cost of sales)	-	-	-
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen <p>Refer to Note (1) for details of their relationship with our Directors and substantial shareholders.</p>						
(x)	SH International and Southampton Property	Interested Directors	Rental of properties by SH International from Southampton Property for use as storage. ⁽¹³⁾	60.00 (0.55% of our Group's PAT)	20.40 (0.17% of our Group's PAT)	-	-	-
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen <p>Interested substantial shareholders</p>	Rental of property by SH International from Southampton Property for use as storage. ⁽¹⁴⁾	25.00 (0.23% of our Group's PAT)	-	-	-	-
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen <p>Refer to Note (3) for details of their relationship with our Directors and substantial shareholders.</p>	Rental of property by SH International from Southampton Property for use as storage. ⁽¹⁵⁾	-	7.50 (0.06% of our Group's PAT)	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Nature of relationship	Nature of transaction	FYE 31 December 2019	FYE 31 December 2020	FYE 31 December 2021	FYE 31 December 2022	From 1 January 2023 up to the LPD
				RM'000	RM'000	RM'000	RM'000	RM'000
			Sale of air-conditioners by SH International to Southampton Property.	-	4.95 (0.04% of our Group's PAT)	-	-	-
(xi)	SH International and SH Holdings	Interested Directors	Payment of interest expense by SH International to SH Holdings.	-	69.29 (0.57% of our Group's PAT)	-	-	-
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen 						
		Interested substantial shareholders						
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen 						
		Refer to Note (17) for details of their relationship with our Directors and substantial shareholders.						

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Nature of relationship	Nature of transaction	FYE 31 December 2019	FYE 31 December 2020	FYE 31 December 2021	FYE 31 December 2022	From 1 January 2023 up to the LPD
				RM'000	RM'000	RM'000	RM'000	RM'000
(xii)	SH International and Sabai Forever Enterprises Company Limited ("Sabai Forever")	Tan Eu Tah and Teh Yee Luen are our Directors and substantial shareholders.	Sale of furniture and related products by SH Sabai International Forever. ⁽¹⁶⁾	501.97 (0.45% of our Group's revenue)	266.28 (0.22% of our Group's revenue)	255.54 (0.14% of our Group's revenue)	-	-
		Tan Eu Tah and Teh Yee Luen used to be shareholders of Sabai Forever and have ceased to be shareholders of Sabai Forever on 2 June 2021.						

Notes:

- (1) *Tan Eu Tah and Teh Yee Luen are our Directors and substantial shareholders. They are also a director and substantial shareholder of Factory Master. Factory Master was struck off on 4 February 2022.*
- (2) *Tan Eu Tah and Teh Yee Luen are our Directors and substantial shareholders. They are also a director and substantial shareholder of JBP Development.*
- (3) *Tan Eu Tah and Teh Yee Luen are our Directors and substantial shareholders. They are also a director and substantial shareholder of Southampton Property.*
- (4) *Tan Eu Tah and Teh Yee Luen are our Directors and substantial shareholders. They are also a director and substantial shareholder of Camden Concept. Camden Concept has ceased business operations since 28 February 2021 and is currently in the process of striking off.*
- (5) *SH Furniture and JBP Development entered into a tenancy agreement for the rental of the premises bearing postal address No. 9, Lorong Sultan Mohamed 25A, Taman IKS PKNS, Bandar Sultan Sulaiman, 42000 Pelabuhan Klang, Selangor on the following dates:*
 - (a) *1 January 2019 for the period commencing on 1 January 2019 to 31 December 2019 at a monthly rental of RM2,500.00; and*
 - (b) *1 January 2020 for the period commencing on 1 January 2020 to 31 December 2022 at a monthly rental of RM2,650.00 and subsequent renewal for a further term of 1 year until 31 December 2023 at a monthly rate of RM2,650.00.*
- (6) *SH Furniture rented from Southampton Property the premises bearing postal address No. 27, Lorong Sultan Mohamed 25A, Taman IKS PKNS, Bandar Sultan Sulaiman, 42000 Port Klang, Selangor for the period commencing on 1 November 2019 to 31 October 2020 at a monthly rental rate of RM2,500.00. The rental rate rate was revised to RM2,650.00 in 1 January 2020. The commencement of the rental was deferred to 1 December 2019.*

10. RELATED PARTY TRANSACTIONS (CONT'D)

- (7) SH Furniture rented from Southampton Property the premises bearing postal address No. 3, Jalan Astana 1D/KU2, Bandar Bukit Raja, 41050 Klang, Selangor for the period commencing on 1 October 2020 to 15 October 2020 at a rental rate of RM2,500.00. The rental of the foregoing premises was not formalised by way of a tenancy agreement.
- (8) SH Furniture and Southampton Property entered into a tenancy agreement for the rental of the premises bearing postal address No. 2, 4, 6, 8, 10, 12, 14, 16, 18, 20, 22, 24, 26 and 28, Lorong Sultan Mohamed 25A, Taman IKS PKNS, Bandar Sultan Sulaiman, 42000 Pelabuhan Klang, Selangor on 1 October 2018 for the period commencing on 1 October 2018 to 30 September 2019 at monthly rental of RM37,800.00. The foregoing tenancy agreement was terminated on 30 June 2019.
- (9) SH Furniture and Southampton Property entered into a tenancy agreement for the rental of the premises bearing postal address No. 17, 19, 21, and 23, Lorong Sultan Mohamed 25A, Taman IKS PKNS, Bandar Sultan Sulaiman, 42000 Pelabuhan Klang, Selangor for use as prototype assembly facility and No. 36, Jalan Sultan Abdul Samad 45, Bandar Sultan Sulaiman, 42000 Pelabuhan Klang, Selangor for use as hostel on the following dates:
- (a) 1 January 2019 for the period commencing on 1 January 2019 to 31 December 2019 at a monthly rental of RM10,600.00 and renewed on 23 December 2019 for the subsequent period commencing on 1 December 2020 to 31 December 2020 at a monthly rental of RM11,300;
- (b) 1 January 2021 for the period commencing on 1 January 2021 to 31 December 2021 at a monthly rental of RM11,300.00; and
- (c) 1 January 2022 for the period commencing on 1 January 2022 to 31 December 2022 at a monthly rental of RM11,300.00. The tenancy agreement was terminated on 29 June 2022.
- (10) SH Furniture and Southampton Property entered into sale and purchase agreement on 15 December 2020 for the premises bearing postal address No. 7, Jalan Astana, 1F/KU 2, Bandar Bukit Raja, 41050 Klang, Selangor ("**Warehouse Sale and Purchase Agreement**") with details set out in Section 6.7 of this Prospectus. The Warehouse Sale and Purchase Agreement were completed on 29 December 2020.
- (11) SH Furniture and Southampton Property entered into sale and purchase agreements on 30 December 2020 for the premises bearing postal address No. 2, 4, 6, 8, 10, 12, 14, 16, 18, 20, 22, 24, 26 and 28, Lorong Sultan Mohamed 25A, Taman IKS PKNS, Bandar Sultan Sulaiman, 42000 Pelabuhan Klang, Selangor ("**Showroom**") ("**Showroom Sale and Purchase Agreements**") as well as for the premises bearing postal address No. 17, 19, 21 and 23, Lorong Sultan Mohamed 25A, Taman IKS PKNS, Bandar Sultan Sulaiman, 42000 Pelabuhan Klang, Selangor ("**Prototype Assembly Facility**") ("**Prototype Assembly Facility Sale and Purchase Agreements**") with details set out in Section 6.7 of this Prospectus. The Showroom Sale and Purchase Agreements and Prototype Assembly Facility Sale and Purchase Agreements were completed on 29 June 2022.

Pursuant to the completion of the Showroom Sale and Purchase Agreements and Prototype Assembly Facility Sale and Purchase Agreements, the tenancy agreement entered into between SK Furniture Industries and Southampton Property on 1 January 2020 for the Showroom as further described in Note (12) was terminated. The tenancy agreement entered into between SH Furniture and Southampton Property on 1 January 2022 for the Workshops for use as prototype assembly facility and No. 36, Jalan Sultan Abdul Samad 45, Bandar Sultan Sulaiman, 42000 Pelabuhan Klang, Selangor ("**Hostel**") for use as hostel as further described in Note (9) above was also terminated on 29 June 2022. In view that the Hostel is not one of the properties sold to SH Furniture, our Group had on 29 June 2022 entered into a new tenancy agreement with Southampton Property in respect of the Hostel. Please refer to Note (19) for further details on the rental of the Hostel.

10. RELATED PARTY TRANSACTIONS (CONT'D)

- (12) *SK Furniture Industries and Southampton Property entered into a tenancy agreement for the rental of the premises bearing postal address No. 2, 4, 6, 8, 10, 12, 14, 16, 18, 20, 22, 24, 26 and 28, Lorong Sultan Mohamed 25A, Taman IKS PKNS, Bandar Sultan Sulaiman, 42000 Pelabuhan Klang, Selangor on the following dates:*
- (a) *1 July 2019 for the period commencing on 1 July 2019 to 31 December 2019 at a monthly rental of RM37,800.00; and*
- (b) *1 January 2020 for the period commencing on 1 January 2020 to 31 December 2022 at a monthly rental of RM39,900.00. The tenancy agreement was terminated on 29 June 2022.*
- (13) *SH International and Southampton Property entered into a tenancy agreement for the rental of the premises bearing postal address No. 11 and 15, Lorong Sultan Mohamed 25A, Taman IKS PKNS, Bandar Sultan Sulaiman, 42000 Pelabuhan Klang, Selangor on the following dates:*
- (a) *1 January 2019 for the period commencing on 1 January 2019 to 31 December 2019 at a monthly rental of RM5,000.00; and*
- (b) *1 January 2020 for the period commencing on 1 January 2020 to 31 December 2020 at a monthly rental of RM5,200.00.*
- (14) *SH International rented from Southampton Property the premises bearing postal address No. 27, Lorong Sultan Mohamed 25A, Taman IKS PKNS, Bandar Sultan Sulaiman, 42000 Port Klang, Selangor for the period commencing on 1 January 2019 to 31 December 2019 at a monthly rental rate of RM2,500.00.*
- (15) *SH International rented from Southampton Property the premises bearing postal address No. 3, Jalan Astana 1D/KU2, Bandar Bukit Raja, 41050 Klang, Selangor for the period commencing on 16 October 2020 to 30 November 2020 at a monthly rental rate of RM5,000.00. The rental of the foregoing premises was not formalised by way of a tenancy agreement.*
- (16) *SH International exported furniture and related products mainly kids furniture to Sabai Forever for sale in the Thailand market. The products were sold to Sabai Forever at an agreed pricing as our Group intended to expand the market reach and business in Thailand. SH International has ceased the sale of furniture and related products to Sabai Forever since 2 June 2021. The transactions between SH International and Sabai Forever were deemed to be carried out not in arms' length basis because they are sold at agreed pricing with lower profit margins after taking into consideration our Group's earlier plans to expand its market reach and business in Thailand.*
- (17) *Tan Eu Tah and Teh Yee Luen are our Directors and substantial shareholders. They are also a director and substantial shareholder of SH Holdings.*
- (18) *SH Furniture and Southampton Property entered into a tenancy agreement for the rental of the premises bearing postal address No. 11 and 15, Lorong Sultan Mohamed 25A, Taman IKS PKNS, Bandar Sultan Sulaiman, 42000 Pelabuhan Klang, Selangor on 1 January 2022 for the period commencing on 1 January 2022 to 31 December 2022 at a monthly rental of RM5,300 and subsequently renewed the tenancy for a further term of 1 year until 31 December 2023 at a monthly rate of RM5,300.00.*
- (19) *SH Furniture and Southampton Property entered into a tenancy agreement for the rental of the premises bearing postal address No. 36, Jalan Sultan Abdul Samad 45, Bandar Sultan Sulaiman, 42000 Pelabuhan Klang, Selangor for use as hostel on 29 June 2022 for the period commencing on 29 June 2022 to 31 December 2022 at a monthly rental of RM700 and subsequently renewed the tenancy for a further term of 1 year until 31 December 2023 at a monthly rate of RM700.00.*
- (20) *SH Furniture and Southampton Property had entered into the Showroom Sale and Purchase Agreements and Prototype Assembly Facility Sale and Purchase Agreements with details set out in Section 6.7 of this Prospectus of which the balance purchase consideration for the Showroom Sale and Purchase Agreements and Prototype Assembly Facility Sale and Purchase Agreements was fully settled on 29 June 2022.*

10. RELATED PARTY TRANSACTIONS (CONT'D)

Save as disclosed in item 16 whereby our Directors does not deem that the transaction has been carried out on arms' length basis, our Directors confirm that all the related party transactions outlined above between our Group and our Directors and/or substantial shareholders of our Company and/or persons connected to them were transacted on an arm's length basis and on normal commercial terms which are not unfavourable to our Group and are not detrimental to our minority shareholders.

After our Listing, we will be required to seek our shareholders' approval each time we enter into material related party transactions in accordance with the Listing Requirements. However, if the related party transactions can be deemed as recurrent related party transactions, we may seek a general mandate from our shareholders to enter into these transactions without having to seek separate shareholders' approval each time we wish to enter into such related party transactions during the validity period of the mandate. In the event there are any proposed related party transactions that require prior approval of our shareholders, our Directors, major shareholders and / or persons connected with them who have any direct or indirect interest in the proposed related party transactions shall abstain from deliberation and voting on resolution(s) pertaining to the respective transactions. Under the Listing Requirements, related party transactions may be aggregated to determine its materiality if the transactions occurred within a 12-month period, are entered into with the same party or with parties related to one another or if the transactions involved the acquisition or disposal of securities of interests in one corporation / asset or of various parcels of land contiguous to each other.

Upon our Listing, our Audit Committee will review the terms of any related party transactions and ensure that any related party transactions (including any recurrent related party transactions) are carried out on terms not more favourable to the related party than those generally available to the third parties dealing at arm's length basis with our Group and are not to the detriment to our minority shareholders. Our Group will seek such relevant shareholders' approval where required. We will make disclosures in our annual report of the aggregate value of the recurrent related party transactions entered into by us based on the nature of the transactions made, names of the related parties involved and their relationship with our Group during the financial year and in the annual reports for the subsequent financial years.

10.2 TRANSACTIONS ENTERED INTO THAT ARE UNUSUAL IN THEIR NATURE OR CONDITIONS

Our Directors have confirmed that there are no transactions that are unusual in their nature or conditions, involving goods, services, tangible or intangible assets, to which our Company and/or any of our Subsidiaries was a party in the Financial Years Under Review and up to the LPD.

10. RELATED PARTY TRANSACTIONS (CONT'D)

10.3 OUTSTANDING LOANS AND/OR FINANCIAL ASSISTANCE TO OR FOR THE BENEFIT OF RELATED PARTIES

Save as disclosed below, there are no outstanding loans (including guarantees of any kind) and/or financial assistance that have been granted by our Company and/or any of our Subsidiaries to or for the benefit of the related parties for the Financial Years Under Review and up to the LPD.

No.	Transacting parties	Nature of relationship	Nature of transaction	Outstanding amount as at				
				31 December 2019 RM'000	31 December 2020 RM'000	31 December 2021 RM'000	31 December 2022 RM'000	LPD RM'000
(i)	SH Furniture and Southampton Property	Interested Directors	Advance by SH Furniture to Southampton Property ⁽³⁾	3,643.64 (19.71% of our Group's NA)	3,777.62 (18.71% of our Group's NA)	3,837.37 (11.17% of our Group's NA)	-	-
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen 						
		Interested substantial shareholders	Provision of corporate guarantee by SH Furniture for the benefit of Southampton Property in relation to a banking facility obtained by Southampton Property ⁽⁴⁾	4,622.61 (25.01% of our Group's NA)	4,583.64 (22.70% of our Group's NA)	4,463.35 (12.99% of our Group's NA)	-	-
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen 						
		Refer to Note (1) for details of their relationship with our Directors and substantial shareholders.	Provision of corporate guarantee by SH Furniture for the benefit of Southampton Property in relation to a banking facility obtained by Southampton Property ⁽⁵⁾	548.94 (2.97% of our Group's NA)	555.77 (2.75% of our Group's NA)	519.38 (1.51% of our Group's NA)	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Nature of relationship	Nature of transaction	Outstanding amount as at				
				31 December 2019 RM'000	31 December 2020 RM'000	31 December 2021 RM'000	31 December 2022 RM'000	LPD RM'000
(ii)	SH Furniture and SH Holdings	Interested Directors	Advance by SH Furniture to SH Holdings. ⁽⁶⁾	-	4,930.00 (24.42% of our Group's NA)	-	-	-
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen 						
		Interested substantial shareholders						
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen 						
		Refer to Note (2) for details of their relationship with our Directors and substantial shareholders.						
(iii)	SH International and SH Holdings	Interested Directors	Advance by SH Holdings to SH International. ⁽⁷⁾	-	1,216.93 (6.03% of our Group's NA)	-	-	-
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen 						
		Interested substantial shareholders						
		<ul style="list-style-type: none"> Tan Eu Tah Teh Yee Luen 						
		Refer to Note (2) for details of their relationship with our Directors and substantial shareholders.						

10. RELATED PARTY TRANSACTIONS (CONT'D)

Notes:

- (1) *Tan Eu Tah and Teh Yee Luen are our Directors and substantial shareholders. They are also a director and substantial shareholder of Southampton Property.*
- (2) *Tan Eu Tah and Teh Yee Luen are our Directors and substantial shareholders. They are also a director and substantial shareholder of SH Holdings.*
- (3) *Advances to Southampton Property were short term in nature and were for Southampton Property's refinancing purposes. The advances were interest bearing from 5.45% to 7.65% per annum. The advances have been fully settled on 29 June 2022.*
- (4) *The corporate guarantee was for banking facility granted by AmBank (M) Berhad to Southampton Property to finance its acquisition of the Showroom ("**AmBank Facility**"). As part of our Group's pre-listing reorganisation, SH Furniture had on 30 December 2020 entered into the Showroom Sale and Purchase Agreements to acquire the Showroom from Southampton Property and the agreements were completed on 29 June 2022. The AmBank Facility was fully settled on 29 June 2022 and as such there is no further financial obligation on the part of SH Furniture on the corporate guarantee granted for the AmBank Facility.*
- (5) *The corporate guarantee was for banking facility granted by Public Bank Berhad to Southampton Property to finance its acquisition of properties which will not form part of the assets of our Group ("**PBB Facility**"). The PBB Facility was fully settled on 29 June 2022 and as such there is no further financial obligation on the part of SH Furniture with respect to the corporate guarantee for the PBB Facility.*
- (6) *Advances to SH Holdings were short term in nature and were for SH Holdings' investment via Southampton Property as the registered owner for a warehouse located in Klang, Selangor. The advances were interest bearing at 3.20% per annum and were subsequently settled in FYE 2021. As at the LPD, the warehouse is still held by Southampton Property as part of its investments and is not used by our Group.*
- (7) *Advances to SH International were short term in nature and were for SH International's working capital purposes. The advances were interest bearing from 5.45% to 6.10% per annum.*

Taking into account our Group's effective annual interest rates on banking facilities which ranged from 2.08% to 9.65% during the Financial Years Under Review, our Directors confirm that the advances outlined above were transacted on an arm's length basis. Moving forward, our Group has put in place strict internal control and compliance procedures in relation to advances and loans to third parties, and no further advances or loans will be given to any related parties of our Group unless such advances and loans are permitted under applicable law and the Listing Requirements and brought to the Audit Committee and our Board for deliberation and approval.

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10. RELATED PARTY TRANSACTIONS (CONT'D)

10.4 PROVISION OF GUARANTEES BY OUR PROMOTERS FOR BANKING FACILITIES GRANTED TO OUR GROUP

Our Promoters, namely, Tan Eu Tah, Teh Yee Luen and SH Holdings have provided joint and several personal guarantees and corporate guarantees respectively for certain outstanding banking facilities extended by Ambank (M) Berhad, HSBC Bank Malaysia Berhad, HSBC Amanah Malaysia Berhad, Small Medium Enterprise Development Bank Malaysia Berhad, Malayan Banking Berhad, CIMB Bank Berhad, CIMB Islamic Bank Berhad and Maybank Islamic Berhad (“**Financiers**”) to our Group. The aggregate amount of banking facilities secured as at the LPD is approximately RM68.61 million.

We have applied to the Financiers to discharge the guarantees by substituting the same with a corporate guarantee from the Company and/or other securities from our Group acceptable to the Financiers. Until such discharge and substitution of guarantees have been implemented by the Financiers, our Promoters will continue to guarantee the banking facilities extended to our Group.

As at 17 October 2022, we have received conditional approvals from all our Financiers to discharge the above guarantees upon the successful Listing by substituting the same with a corporate guarantee from our Company or such other securities acceptable to the Financiers.

10.5 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS

Our Audit Committee will review the terms of all related party transactions (including recurrent related party transactions), and our Directors will report such transactions, if any, annually in our Company's annual report. In the event that there are any proposed related party transactions that involve the direct or indirect interest of our Directors, our interested Directors shall disclose to our Board the nature and extent of their interest including all matters in relation to the proposed related party transactions that they are aware or should reasonably be aware of, which is not in our best interest. Our interested Directors shall also abstain from any of our Board's deliberation and voting on the relevant resolutions in respect of such proposed related party transactions.

Further, we will be required to seek our shareholders' approval each time we enter into material related party transactions in accordance with the Listing Requirements. However, if the related party transactions are deemed as recurrent related party transactions, we may seek a general mandate from our shareholders to enter into these transactions. The interested persons shall abstain from voting on the relevant resolutions in respect of such proposed related party transactions at our general meetings. Under the Listing Requirements, related party transactions may be aggregated to determine their materiality if the related party transactions occurred within a 12-month period, are entered with the same party or with parties connected to one another or if the transactions involve the acquisition or disposal of securities or interests in one particular corporation/asset or of various parcels of land contiguous to each other.

11. CONFLICT OF INTEREST

11.1 INTEREST IN SIMILAR BUSINESS OF OUR GROUP, OUR CUSTOMER AND/OR SUPPLIER

As at the LPD, none of our Directors and/or substantial shareholders have any interest, whether direct or indirect, in other businesses or corporations which are carrying on a similar trade to that of our Group or which are the customers and/or suppliers of our Group.

11.2 DECLARATION BY THE ADVISERS ON CONFLICT OF INTEREST

11.2.1 Declaration by Kenanga IB

Kenanga IB confirms that there is no existing or potential conflict of interest in its capacity as the Principal Adviser, Sponsor, Underwriter and Placement Agent for our IPO.

11.2.2 Declaration by Cheang & Ariff

Cheang & Ariff confirms that there is no existing or potential conflict of interest in its capacity as the Solicitors for our IPO.

11.2.3 Declaration by Crowe Malaysia

Crowe Malaysia confirms that there is no existing or potential conflict of interest in its capacity as the Auditors and Reporting Accountants for our IPO.

11.2.4 Declaration by Smith Zander

Smith Zander confirms that there is no existing or potential conflict of interest in its capacity as the Independent Market Researcher for our IPO.

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12. FINANCIAL INFORMATION**12.1 HISTORICAL FINANCIAL INFORMATION**

Our historical financial information throughout the Financial Years Under Review have been prepared in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards. The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results and cash flows.

We completed the Acquisitions on 20 January 2023. All companies acquired by Synergy pursuant to the Acquisitions are assumed to be under the common control of Synergy. As such, the historical financial information of our Group for the Financial Years Under Review is presented based on the combined audited financial statements of the Group.

12.1.1 Combined statements of profit or loss and other comprehensive income

The following table sets out a summary of our combined statements of profit or loss and other comprehensive income for the Financial Years Under Review which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Accountants' Report set out in Sections 12.2 and 14 respectively.

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Revenue	111,482	122,891	184,292	194,093
Cost of sales	(89,643)	(96,425)	(147,492)	(147,733)
GP	21,839	26,466	36,800	46,360
Other income	2,305	1,202	1,385	2,655
Selling and distribution expenses	(3,159)	(3,238)	(6,899)	(11,636)
Administrative expenses	(4,423)	(4,721)	(9,609)	(10,092)
Other expenses	(431)	(1,067)	(112)	(489)
Profit from operations	16,131	18,642	21,565	26,798
Finance costs	(2,018)	(1,884)	(2,338)	(3,410)
Net impairment (losses)/reversal of impairment on financial assets	-	(45)	(1)	11
PBT	14,113	16,713	19,226	23,399
Income tax expenses	(3,218)	(4,606)	(4,839)	(6,775)
PAT/Total comprehensive income attributable to owners of the Company	10,895	12,107	14,387	16,624
Other comprehensive income				
<u>Items that will not be reclassified subsequently to Profit or Loss</u>				
Revaluation of property, plant and equipment and right-of-use assets	-	-	(1)6,158	(2)1,277
Total other comprehensive income	-	-	6,158	1,277
Total comprehensive income for the financial year	10,895	12,107	20,545	17,901

12. FINANCIAL INFORMATION (CONT'D)

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
EBIT ⁽³⁾	15,721	17,940	21,289	26,628
EBITDA ⁽³⁾	16,695	19,190	22,677	28,350
GP margin (%) ⁽⁴⁾	19.59	21.54	19.97	23.89
PBT margin (%) ⁽⁵⁾	12.66	13.60	10.43	12.06
PAT margin (%) ⁽⁶⁾	9.77	9.85	7.81	8.56
Basic/Diluted EPS (sen) ⁽⁷⁾				
- After the Acquisitions but before IPO ⁽⁸⁾	2.59	2.88	3.43	3.96
- After IPO ⁽⁹⁾	2.18	2.42	2.88	3.32

Notes:

- (1) *Comprises net revaluation surplus (net of deferred taxation) arising from the revaluation of our freehold land and warehouse building as well as leasehold land based on independent professional valuation on 31 December 2021.*
- (2) *Comprises net revaluation surplus (net of deferred taxation) arising from the revaluation of our freehold land, warehouse building, showroom and prototype assembly facilities as well as leasehold land based on independent professional valuation on 30 June 2022.*
- (3) *EBIT and EBITDA are calculated as follows:*

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
PAT	10,895	12,107	14,387	16,624
Less:				
Interest income	(410)	(657)	(275)	(181)
Add:				
Finance costs	2,018	1,884	2,338	3,410
Taxation	3,218	4,606	4,839	6,775
EBIT	15,721	17,940	21,289	26,628
Add:				
Depreciation	974	1,250	1,388	1,722
EBITDA	16,695	19,190	22,677	28,350

- (4) *Calculated based on GP over revenue.*
- (5) *Calculated based on PBT over revenue.*
- (6) *Calculated based on PAT over revenue.*
- (7) *The basic EPS is the same as the diluted EPS as there were no outstanding convertible securities for the Financial Years Under Review.*
- (8) *Calculated based on PAT for the financial year over our enlarged 420,000,000 Shares in issuance after the Acquisitions but before our IPO.*
- (9) *Calculated based on PAT for the financial year over our enlarged 500,000,000 Shares in issuance after our IPO.*

12. FINANCIAL INFORMATION (CONT'D)**12.1.2 Combined statements of financial position**

The following table sets out the combined statements of financial position of our Group as at 31 December 2019, 2020, 2021 and 2022 which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Accountants' Report set out in Sections 12.2 and 14 respectively.

	As at 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Non-current assets				
Property, plant and equipment	1,524	22,198	22,869	32,271
Right-of-use assets	12,435	13,410	20,954	22,462
Other investment	416	-	-	-
Total non-current assets	14,375	35,608	43,823	54,733
Current assets				
Inventories	3,709	6,217	9,271	26,889
Trade receivables	10,354	13,730	21,792	15,404
Other receivables, deposits and prepayments	11,694	16,700	14,825	5,908
Current tax assets	238	291	379	584
Deposits with licensed banks	9,577	1,656	5,668	12,704
Cash and bank balances	6,312	12,591	15,861	14,723
Total current assets	41,884	51,185	67,796	76,212
Total assets	56,259	86,793	111,619	130,945
Equity				
Invested capital	2,610	2,610	2,610	2,610
Revaluation reserve	-	-	6,158	7,655
Retained profits	15,875	17,582	25,581	36,085
Total equity/NA	18,485	20,192	34,349	46,350
Non-current liabilities				
Bank borrowings	17,359	34,064	35,363	37,749
Lease liabilities	235	944	238	561
Deferred tax liabilities	28	55	2,101	2,688
Total non-current liabilities	17,622	35,063	37,702	40,998
Current liabilities				
Trade payables	9,127	4,817	9,600	9,772
Other payables and accruals	2,668	⁽¹⁾ 11,166	3,696	6,616
Bank borrowings	4,160	14,716	25,321	25,241
Lease liabilities	322	667	688	401
Dividend payables	3,000	-	-	-
Current tax liabilities	875	172	263	1,567
Total current liabilities	20,152	31,538	39,568	43,597
Total liabilities	37,774	66,601	77,270	84,595
Total equity and liabilities	56,259	86,793	111,619	130,945

12. FINANCIAL INFORMATION (CONT'D)**Note:**

- (1) The other payables and accruals increased by approximately RM8.50 million from RM2.67 million as at 31 December 2019 to RM11.17 million as at 31 December 2020, mainly attributable to the following:
- (a) advances from the holding company of approximately RM1.33 million, in which approximately RM1.22 million of the amount owing bore interest at the rate of 3.20% per annum. The said amount was fully settled during FYE 31 December 2021;
- (b) amount due to a related party, Southampton Property of approximately RM6.05 million, being the balance of the purchase consideration for the acquisition of the warehouse building as detailed in Section 6.7(iii) of this Prospectus; and
- (c) accrual of stamp duty of approximately RM0.78 million for the purchase of the freehold land and warehouse building during FYE 31 December 2020.

12.1.3 Combined statements of cash flows

The following table sets out the combined statements of cash flows of our Group for the Financial Years Under Review, which have been extracted from the Accountants' Report. It should be read with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Accountants' Report set out in Sections 12.2 and 14, respectively.

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities				
PBT	14,113	16,713	19,226	23,399
Adjustments for:				
Bad debt written off	100	*	-	-
Depreciation of property, plant and equipment	307	365	610	905
Depreciation of right-of-use assets	667	885	778	817
Fair value gain on other investment	(16)	-	-	-
Gain on disposal of property, plant and equipment	(27)	(88)	(121)	(12)
Gain on reassessment and modification of leases	*	(5)	-	(40)
Impairment loss on trade receivables	-	45	12	-
Inventories written down	57	-	-	138
Inventories written off	-	807	-	-
Net fair value changes on revaluation	-	-	-	201
Property, plant and equipment written off	2	101	9	5
Reversal of impairment losses on trade receivables	-	-	(11)	(11)
Reversal of inventories previously written down	-	(192)	(175)	-
Unrealised loss on foreign exchange	327	109	57	268

12. FINANCIAL INFORMATION (CONT'D)

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Interest expenses	1,650	1,707	2,161	3,343
Interest income	(410)	(657)	(275)	(181)
Operating profit before working capital changes	16,770	19,790	22,271	28,832
Inventories	484	(3,123)	(2,879)	(17,756)
Trade receivables	(1,755)	(3,382)	(8,153)	6,442
Other receivables, deposits and prepayments	(1,050)	408	(2,718)	4,226
Trade payables	1,888	(4,318)	4,799	157
Other payables and accruals	1,767	416	603	2,945
Cash from operations	18,104	9,791	13,923	24,846
Interest paid	-	(69)	-	-
Interests received	410	657	275	181
Tax paid	(2,157)	(6,176)	(4,776)	(5,492)
Tax refunded	2,418	841	-	*
Net cash from operating activities	18,775	5,044	9,422	19,535
Cash flows for investing activities				
Additions of right-of-use assets	-	(70)	-	-
Deposit paid for purchase of property, plant and equipment	-	(500)	(356)	-
Net (increase)/decrease in fixed deposit pledged	(1,007)	1,007	(5,392)	(5,235)
Purchase of property, plant and equipment	(596)	(14,392)	(8,393)	(9,667)
Purchase of other investment	(400)	-	-	-
Proceeds from disposal of property, plant and equipment	210	210	133	52
Proceeds from disposal of other investment	-	416	-	-
Withdrawal/(Placement) of fixed deposits with tenure more than 3 months	425	(1,231)	1,031	200
Net cash for investing activities	(1,368)	(14,560)	(12,977)	(14,650)
Cash flows (for)/from financing activities				
Advances (to)/ Repayment from holding company	-	(3,713)	3,713	-
Repayment from a related party	40	16	17	3,837
Dividends paid	(2,131)	(13,400)	(6,388)	(5,900)
Drawdown of bankers' acceptances	12,188	7,494	16,756	72,294
Drawdown of revolving financing	1,415	19,933	11,069	3,187
Drawdown of receivable financing	-	-	24,274	24,998
Drawdown of term loans	-	17,615	15,132	4,720
Drawdown of invoice financing	-	925	1,097	1,965
Interests paid	(1,650)	(956)	(2,085)	(3,343)
Proceeds from issuance of ordinary shares	1,088	-	*	-

12. FINANCIAL INFORMATION (CONT'D)

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Repayment of bankers' acceptances	(11,416)	(7,994)	(9,712)	(62,817)
Repayment of lease liabilities	(598)	(731)	(627)	(614)
Repayment of revolving financing	(4,621)	(10,966)	(7,870)	(13,221)
Repayment of receivable financing	-	-	(22,665)	(24,793)
Repayment of term loans	(375)	(223)	(14,813)	(2,260)
Repayment of invoice financing	-	(205)	(1,440)	(1,647)
Net cash (for)/from financing activities	(6,060)	7,795	6,458	(3,594)
Net increase/(decrease) in cash and cash equivalents	11,347	(1,721)	2,903	1,291
Effect of foreign exchange translation	(87)	(145)	18	(428)
Cash and cash equivalents at the beginning of the financial year	3,622	14,882	13,016	15,937
Cash and cash equivalents at the end of the financial year	14,882	13,016	15,937	16,800

* *Negligible.*

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12. FINANCIAL INFORMATION (CONT'D)

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

The following discussion and segmental analysis of our combined financial statements for the Financial Years Under Review should be read with the Accountants' Report included in Section 14 of this Prospectus.

12.2.1 Overview of our operations**(i) Principal activities**

Our Group is principally involved in the design, development and sale of RTA home furniture. RTA home furniture is a form of furniture where furniture parts are in flat-packed form for ease of storage and transportation. RTA home furniture requires customers to assemble themselves upon purchase.

We sell our RTA home furniture to online retailers, chain-store retailers and wholesalers via a B2B sales model, as well as directly to end-consumers through our in-house online stores and third party e-commerce platforms via a B2C sales model. Our home furniture sold via B2B sales model are branded under third party brand names whereas home furniture sold via B2C sales model can either be branded under our in-house brand names or third party brand names. Our furniture are widely sold and marketed online whereby our furniture sold to online retailers under our B2B sales model are subsequently sold to end-consumers through their respective e-commerce platforms. Further, chain-store retailers will mainly sell our home furniture to end-consumers in physical stores, and/or through e-commerce platforms if established, whereas home furniture sold to wholesalers may be distributed to retailers for onward sales to end-consumers.

The wide acceptance of our products on e-commerce platforms is attributed to the affordable pricing of RTA home furniture due to the usage of wood panel products as opposed to solid wood, and cost efficiency for logistics and easy transportation as they are packaged in flat-packed form. This is also in line with the growth of the global furniture e-commerce market. Details on the growth of the global furniture e-commerce market are set out in Section 8 of this Prospectus. In addition, our RTA home furniture are generally designed for smaller homes. The detailed arrangements with our B2B and B2C customers are set out in Section 7.4 this Prospectus.

The range of RTA home furniture offered by our Group comprises bedroom furniture, living room furniture and dining room furniture. Our expertise in designing RTA home furniture covers the key aspects in furniture design, including conceptualisation, product development, testing and product launch. This is backed by our in-house D&D team which is involved in all aspects in furniture design, supported by our sales and marketing team. Our D&D team stays abreast of changing consumer lifestyles and preferences as well as market trends globally, and incorporates inputs and feedback from our sales and marketing team gathered from our customers, to continuously develop innovative home furniture that suit the latest demand from consumers globally.

During the D&D process, apart from the functionality and aesthetic values of the furniture, we also consider market acceptance of the products in local and various overseas markets, as well as cost analysis, pricing strategies and product differentiation, amongst others. All the aforementioned considerations are crucial to determine the optimised furniture to be launched for sale. Further details on our D&D activities are set out in Section 7.11 of this Prospectus.

12. FINANCIAL INFORMATION (CONT'D)

As we focus on the design, development and sale of RTA home furniture, we outsource all manufacturing works of our home furniture to third party manufacturers where they are responsible for purchasing raw materials, manufacturing and packaging of our home furniture in accordance to our designs, specifications and requirements. The outsourcing of the manufacturing works for our home furniture enables our Group to maintain a lean operational structure and focus on product development. It also allows us to be flexible in accepting more customer orders as we are not limited by production capacity for the manufacturing works. The detailed arrangements with third party manufacturers are set out in Section 7.5 of this Prospectus.

Our products are sold locally and exported overseas. In the Financial Years Under Review and up until the LPD, for sales to B2B customers, we primarily export our home furniture to the UK, the USA, United Arab Emirates and other countries as well as sell to local customers in Malaysia. As for sales to B2C customers, our home furniture are sold to local end-consumers in Malaysia through third party e-commerce platforms and our in-house online store, and to end-consumers overseas through third party e-commerce platforms.

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

(ii) Revenue

Our revenue is derived from the following sales model:

- (a) Our B2B sales model, where our home furniture are sold to online retailers, chain-store retailers and wholesalers in bulk based on purchase orders from these customers; and are labelled under third party brand names by our customers. Online retailers will then sell the products to end-consumers through e-commerce platforms; while chain-store retailers will mainly sell the products to end-consumers in physical stores, and/or through e-commerce platforms. Further, our home furniture sold to wholesalers may be distributed to retailers for onward sales to end-consumers. Revenue under our B2B sales model is recognised when the goods have been delivered to our B2B customer. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, and bears the risks of obsolescence and loss in relation to the goods.
- (b) Our B2C sales model, where our home furniture are sold to end-consumers directly through our in-house online store at www.synergytomato.com and third party e-commerce platforms. Our products sold on our in-house online store are all labelled under our in-house brands. On the other hand, depending on the requirements of each third party e-commerce platform operator, our products may be labelled under our in-house brands or under third party brand names. As at the LPD, our products are available for sale on our in-house online store and several main third party e-commerce platforms (i.e. Lazada, Shopee, Customer C Group's e-commerce platforms in the USA, Canada and the UK and Amazon's e-commerce platforms in the USA, Canada and the UK). Revenue under our B2C sales model is recognised when the goods have been delivered to the end customers of the e-commerce platforms.

Our B2B sales segment is the main revenue driver of our Group and has contributed approximately RM109.49 million, RM117.57 million, RM159.52 million and RM144.47 million or 98.21%, 95.67%, 86.56% and 74.43% of our revenue for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively.

12. FINANCIAL INFORMATION (CONT'D)**(iii) Cost of sales**

Our cost of sales comprises 3 major components, i.e. manufacturing costs, design and development costs as well as quality control costs.

Our cost of sales amounted to RM89.64 million, RM96.43 million, RM147.49 million and RM147.73 million representing approximately 80.41%, 78.46%, 80.03%, and 76.11% of our total revenue for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively.

(a) Manufacturing costs

Manufacturing costs comprise mainly our third party manufacturing costs for our home furniture, purchase of raw material costs, freight cost in relation to our overseas B2C business, warehouse and handling charges as well import-related charges.

We outsource all manufacturing works of our home furniture to third party manufacturers, where they are responsible for purchasing raw materials manufacturing and packaging our home furniture in accordance with our designs, specifications and requirements. Subsequently, our home furniture will be delivered directly from our third party manufacturers' premises to our B2B customers; or to the Designated Third Party Manufacturer's Premises to be stored as inventory for our local B2C sales; or to the respective third party e-commerce fulfilment centre located in the USA, Canada and the UK for our overseas B2C sales.

Manufacturing costs constituted the largest portion of our cost of sales, representing 96.45%, 96.19%, 97.19% and 96.68% of our total cost of sales for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively. Our manufacturing costs fluctuated in tandem with the fluctuations in our total revenue for FYEs 31 December 2019, 31 December 2020 and 31 December 2021. For FYE 31 December 2022, our manufacturing costs did not fluctuate in tandem with the fluctuation in our revenue mainly due to downward revision in manufacturing costs for dining room furniture toward the end of FYE 31 December 2022 as we were able to obtain more favorable purchase price from our third party manufacturers.

(b) D&D costs

D&D costs comprise mainly staff costs for our design and development team, costs for development and testing prototypes, depreciation of plant and machinery and right-of-use assets, utilities as well as upkeep of machinery.

Our D&D team continuously designs home furniture with new and innovative designs as well as enhanced functionality to suit the ever-changing market needs and preferences for the respective countries that we market and sell our products to. Following this, we develop prototypes and testing will be carried out on the prototypes to ensure their features, functionality and durability are as specified. Once the prototypes are approved by our QC department and D&D department, our sales and marketing team will prepare for the launching of the new designs. Please refer to Section 7.11 of this Prospectus for further information regarding our D&D activities.

12. FINANCIAL INFORMATION (CONT'D)

Our D&D costs amounted to RM2.24 million, RM2.46 million, RM2.97 million and RM3.78 million representing 2.50%, 2.55%, 2.01% and 2.56 % of our total cost of sales for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively. The fluctuation in D&D costs was not in line with the fluctuations in revenue, mainly because most of the D&D costs were fixed in nature, i.e., staff costs.

(c) QC costs

QC costs comprise mainly staff costs for our QC staff, inspection fees, and subcontract wages for quality control work.

In order to ensure that the products manufactured by our third party manufacturers meet the required specifications and quality standards, our in-house QC team or our appointed third party QC service providers will conduct quality checks at all stages of the production process in the factory premises. Please refer to Section 7.8 of this Prospectus for further details on our QC procedures.

Our QC costs amounted to approximately RM0.94 million, RM1.21 million, RM1.18 million and RM1.12 million representing 1.05%, 1.26%, 0.80% and 0.76% of our total cost of sales for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively. The fluctuation in QC costs was not in line with the fluctuations in revenue, mainly because most of the QC costs were fixed in nature, i.e., staff costs.

(iv) Other income

Other income comprise mainly rental income, government wage subsidies received, interest received from fixed deposits placed with financial institutions, advances to suppliers, advance to holding company, gain on disposal of property, plant and equipment as well as gain on foreign exchange.

Our other income amounted to approximately RM2.31 million, RM1.20 million, RM1.39 million and RM2.66 million representing 2.07%, 0.98%, 0.75% and 1.37% of our revenue for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively.

(v) Selling and distribution expenses

Selling and distribution expenses comprise mainly freight and transportation costs in relation to our local B2C business, storage and fulfilment services costs, marketing support expenses, staff costs, upkeep of showrooms, travelling and accommodation expenses and rental expenses. We do not incur freight costs for our B2B business as they are borne by our B2B customers.

Our selling and distribution expenses amounted to approximately RM3.16 million, RM3.24 million, RM6.90 million and RM11.64 million representing 2.83%, 2.64%, 3.74% and 6.00% of our revenue for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively.

(vi) Administrative expenses

Administrative expenses comprise mainly remunerations for administrative staff and directors, depreciation of property, plant and equipment, legal and professional fees, upkeep and maintenance costs as well as travelling expenses.

12. FINANCIAL INFORMATION (CONT'D)

Our administrative expenses amounted to approximately RM4.42 million, RM4.72 million, RM9.61 million and RM10.09 million representing 3.96%, 3.84%, 5.21% and 5.20% of our revenue for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively.

(vii) Other expenses

Other expenses comprise mainly loss on foreign exchange, property, plant and equipment written off, fair value loss on property, plant and equipment and bad debts written off.

Our other expenses amounted to approximately RM0.43 million, RM1.07 million, RM0.11 million and RM0.49 million representing 0.39%, 0.87%, 0.06% and 0.25% of our revenue for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively.

(viii) Finance costs

Finance costs arose from the utilisation of banking facilities which comprise term loans, revolving financing, bill receivables charges, lease liabilities and bankers' acceptance.

Our finance costs amounted to approximately RM2.02 million, RM1.88 million, RM2.34 million and RM3.41 million representing 1.81%, 1.53%, 1.27% and 1.76% of our revenue for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively.

(ix) Changes to accounting policies and estimates

There were no changes to our accounting policies and estimates during the Financial Years Under Review.

(x) Significant events subsequent to FYE 31 December 2022

Save for the Acquisitions, there were no other significant events subsequent to our audited combined financial statements for FYE 31 December 2022.

(xi) Exceptional and extraordinary items and audit qualifications

There were no exceptional or extraordinary items during the Financial Years Under Review. In addition, our audited combined financial statements for the Financial Years Under Review were not subject to any audit qualifications.

12. FINANCIAL INFORMATION (CONT'D)**(xii) Significant factors affecting our financial condition and result of operations**

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

(a) Exposure to foreign exchange fluctuation risk which may impact our revenue and purchases

During the Financial Years Under Review, we primarily exported our home furniture to the UK, United Arab Emirates, the USA and other countries. The revenue generated from our export sales are denominated in USD, GBP and CAD, and hence, we are exposed to foreign exchange fluctuations risks for these revenue. For sales to local customers in Malaysia, the revenue generated are denominated in RM. The breakdown of our revenue by currencies in the Financial Years Under Review is tabulated in Section 12.12.1 of this Prospectus.

Our purchases are also exposed to foreign exchange fluctuation risks arising from engaging overseas third party manufacturers who are mainly in China, Indonesia and Vietnam for the supply of finished goods (i.e. home furniture manufactured by third party manufacturers), whereby the purchase of finished goods from overseas third party manufacturers are denominated in USD and RMB. Additionally, some purchase of finished goods from local third party manufacturers in Malaysia are also denominated in USD as requested by the manufacturers. During the Financial Years Under Review, we also purchased some supplies from overseas suppliers such as furniture raw materials to be provided to our third party manufacturers for the manufacturing of our home furniture, raw materials for the assembly of our prototypes and home furnishings, whereby these purchases were denominated in USD and RMB. Additionally, during the Financial Years Under Review, we also purchased some furniture raw materials, raw materials for the assembly of our prototypes and/or home furnishings from local suppliers in which these purchases were denominated in RM. The breakdown of our purchases by currencies in the Financial Years Under Review is tabulated in Section 12.12.1 of this Prospectus.

In the Financial Years Under Review, our transactions involving foreign exchange were predominantly denominated in USD. In circumstances where the USD significantly appreciates against the RM, we will record higher revenue and higher purchases in RM after conversion. Conversely, in circumstances where the USD significantly depreciates against the RM, we will record lower revenue and lower purchases in RM after conversion. For the Financial Years Under Review, our gains and losses from foreign exchange fluctuations were tabulated in Section 12.12.1 of this Prospectus.

(b) Dependency on 2 of our major customers who contributes substantially to our revenue

For FYEs 31 December 2019 and 31 December 2020, our largest major customer was Shop Direct Home Shopping Limited who contributed 28.36% and 30.14% to our Group's total revenue for FYEs 31 December 2019 and 31 December 2020 respectively. For the FYE 31 December 2021 and FYE 31 December 2022, Shop Direct Home Shopping Limited became our third largest major customer, with revenue contribution of 14.69% and 16.71% for the respective years. In view that Shop Direct Home Shopping Limited has been one of our major customers for the Financial Years Under Review consecutively, we are dependent on Shop Direct Home Shopping Limited.

12. FINANCIAL INFORMATION (CONT'D)

In addition, for FYE 31 December 2021, Hillsdale Furniture, LLC became our largest major customer who contributed 25.39% to our Group's total revenue. Further, for FYE 31 December 2022, Hillsdale Furniture, LLC became our second largest major customer who contributed 17.97% to our Group's total revenue. In view that Hillsdale Furniture, LLC has been one of our major customers starting from FYE 31 December 2021, we are dependent on Hillsdale Furniture, LLC.

Despite having 20 years and 3 years of business relationships with Shop Direct Home Shopping Limited and Hillsdale Furniture, LLC respectively, there can be no assurance that Shop Direct Home Shopping Limited and Hillsdale Furniture, LLC will continue to purchase home furniture from us, or continue to purchase a significant amount from us, given that there is no long-term contract or written purchase obligations with Shop Direct Home Shopping Limited and Hillsdale Furniture, LLC as all sales are carried out on purchase order basis.

(c) Exposure to inadequate insurance coverage to cover all losses or liabilities that may arise in connection with our operations

We maintain insurance coverage at levels that are customary in our industry to protect against various losses and liabilities in our business operations. As these insurance coverages are subject to exclusions and limitations of liability both in amount and with respect to the insured events, our insurance may not be adequate to cover all losses or liabilities that might be incurred in our operations as a result of any unforeseen circumstances.

In the Financial Years Under Review and up to the LPD, our Group did not encounter any events that resulted in any insurance claims.

(d) Dependency on third party manufacturers for the manufacturing of our home furniture

Our Group focuses on the design, development and sale of home furniture. We outsource all manufacturing works for our home furniture to third party manufacturers where they are responsible for purchasing raw materials, manufacturing and packaging of our home furniture in accordance to our designs, specifications and requirements. As such, our Group's business operations are dependent on the services of our third party manufacturers.

For FYE 31 December 2019, FYE 31 December 2020 and FYE 31 December 2021, we were dependent on 3 third party manufacturers who were our major suppliers namely, P.T. Galangcitramitra Majumapan, Piau Chez Sdn Bhd and Grand Victory Furniture Sdn Bhd who collectively contributed 60.23%, 66.21% and 48.30% to our total purchases for FYEs 31 December 2019, 31 December 2020 and 31 December 2021 respectively. In FYE 31 December 2022, we were dependent on 2 of our major suppliers, namely Piau Chez Sdn Bhd and Grand Victory Furniture Sdn Bhd who collectively contributed approximately 46.48% to our total purchases. Please refer to Section 7.16 of this Prospectus for further details of our major suppliers. In addition, as disclosed in Section 7.4 of this Prospectus, we store our inventory for our local B2C sales at our Designated Third Party Manufacturer's Premises.

12. FINANCIAL INFORMATION (CONT'D)

Moreover, as our third party manufacturers are responsible for materials purchasing and manufacturing of our home furniture using their in-house labour, any significant increases in manufacturing costs charged by them due to increases in the raw materials prices arising from amongst others, increase in commodity prices and shipping costs; and/or labour costs may impact our cost of sales. In the Financial Years Under Review, our manufacturing costs (i.e. comprising mainly our third party manufacturing costs for our home furniture, purchase of raw material costs, freight cost in relation to our overseas B2C business, warehouse and handling charges and import-related charges) accounted for 96.45%, 96.19%, 97.19% and 96.68% of our total cost of sales for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively. If we are unable to pass the increase in manufacturing costs to our customers, this will impact our GP margin and may in turn negatively impact our financial performance.

Further, our third party manufacturers may also experience financial difficulties, resource constraints or other difficulties which may affect their ability to carry out the manufacturing works for our home furniture, thereby resulting in delays to the fulfilment of orders and delivery of products to our customers. This may result in loss and damages against our Group, and may eventually negatively impact the overall operations, financial performance and reputation of our Group.

(e) Being subjected to regulatory requirements for our business operations

Our business is subject to various laws, rules and regulations. We have obtained the necessary major licences, permits and approvals from the relevant governmental authorities and issuers for our business as set out in Section 7.24 of this Prospectus.

In addition, we may be required to comply with further requirements if there are any changes to applicable legislations, regulations and/or policies in Malaysia. This may affect our business operations and financial condition if we are unable to comply with the new legislations, regulations and/or policies.

(f) Exposure to sudden disruptions caused by severe disease outbreaks such as the COVID-19 pandemic

Our business and operations are subject to sudden disruptions caused by severe disease outbreaks in Malaysia and the countries we transact with.

On 11 March 2020, the COVID-19, also known as the coronavirus disease 2019, was declared a worldwide pandemic by the World Health Organisation. In efforts to curb the spread of the COVID-19, precautionary measures were taken by government authorities around the world as well as by our third party manufacturers and customers which had consequently impacted our business and operations.

Any prolonged disruption to our business and operations will materially affect our ability to fulfil orders on a timely basis which will lead to a negative impact on our revenue recognition and financial performance. Please refer to Section 7.17 of this Prospectus for further details on the interruptions to our business and operations caused by the COVID-19 pandemic.

In the event of any future pandemic outbreaks, as well as epidemic outbreaks are to occur, this may result in similar interruptions to our Group's business and operations, which may subsequently have a negative impact on our financial performance.

12. FINANCIAL INFORMATION (CONT'D)**(g) Exposure to evolving market trends and consumer preferences on home furniture designs**

Furniture is a consumer product and is susceptible to changing market trends and consumer preferences. As we export our home furniture to numerous countries, it is crucial that we have a wide variety of designs, and we are able to respond to changes in market trends and consumer preferences, to suit the unique requirements of the consumers from different countries. As a result of these evolving market trends and consumer preferences, we face the risk that our D&D team may not be able to respond promptly to these changes and provide innovative designs in a timely manner.

Further, there is no assurance that any or all of our home furniture designs will be well accepted by our customers at all times. Any failure to keep up with market demands and delays and/or inability to launch innovative designs may result in a loss of customers, which may consequently lead to an adverse effect on our business and financial performance.

(h) Not being able to successfully implement our business strategies

Among our business strategies set out in Section 7.19 of this Prospectus, the key business strategy is to grow our business by further expanding our customer reach in the B2C sales segment by listing and selling our products on third party e-commerce platforms with new market focus, as well as setting up new warehouse in Muar, Johor and Port Klang, Selangor as fulfilment centres to support the anticipated increase in our B2C sales from other countries such as the USA, Canada and the UK as well as locally. We also plan to increase our inventory holding in third party e-commerce fulfilment centres located in overseas countries and our Proposed New Muar Warehouse to continue growing our sales in the B2C segment. Further, we also intend to implement advertising and promotional strategies to enhance our revenue for our B2C sales.

In addition, the implementation of this business strategy may also be influenced by various factors beyond our control, such as changes in economic conditions and social and political environments in Malaysia as well as other countries such as the USA, Canada and the UK which may affect the commercial viability of our business strategy. Further, the success of our business strategy could also be adversely affected by other factors such as entrants of new competitors, which may affect the attractiveness of our home furniture.

Hence, there is no assurance that we will be successful in executing our business strategy, nor can we assure that we will be able to anticipate all business, operational and industry risks arising from our business strategy. In the event that we are unable to manage our expansion plans and the related risks and costs, such failure may adversely affect our business operations and financial performance.

Risks relating to our exposure to not be able to successfully implementing our business strategies that may affect the financial position, and the results of our operations are set out in Section 9.1.9 of this Prospectus

12. FINANCIAL INFORMATION (CONT'D)**(i) Exposure to credit risk and default payment by our customers**

Our financial performance is dependent, to a certain extent, on the creditworthiness of our customers. If circumstances arise that affect our customers' ability or willingness to pay us, we may experience payment delays or in worst cases, we may not be able to collect payment from our customers. We generally grant our customers credit periods of up to 120 days. Should there be a delay or default in payment, our operating cash flows and financial results may be adversely affected.

Despite closely monitoring our customers' payment track records and making timely reminders when necessary, there can be no guarantee that our customers will be able to fulfil their payment obligations. For the Financial Years Under Review and up to the LPD, our Group has not experienced any instances of significant bad debts or doubtful debts. However, there is no assurance that our customers will continue to maintain their positive payment records in the future.

(j) The absence of long-term contracts with customers may result in the fluctuation of our Company's financial performance

We do not enter into any long-term contracts with our customers as our customers, primarily B2B customers, purchase home furniture from us by way of purchase orders. The absence of long-term contracts is mainly due to the nature of our business where the designs of our home furniture vary according to the market trends and consumer preferences in various countries from time to time. Thus, the demand for our home furniture is also subject to our customers' design preferences of home furniture during a particular period of time.

Given that we do not have any long term contracts with our customers, we are exposed to the risk of losing our existing customers as our customers are not obliged to purchase home furniture from us and they are allowed to cease their purchase from us at any time. In the event if we lose any of our customers, particularly our major customers, as well as being unable to secure additional sales from existing customers or secure new customers in a timely manner, our financial performance may be adversely affected.

While our Group continuously seek to ensure customer satisfaction by improving our product designs, maintaining and strengthening existing business relationships as well as establishing relationships with new customers to grow our clientele base, any external factors such as adverse economic conditions, significant price reduction by our competitors or slowdown in the demand for furniture may negatively impact our sales in view of the absence of long term contracts, which will subsequently negatively impact the financial performance of our Group.

12. FINANCIAL INFORMATION (CONT'D)**(k) May be adversely affected by product defects caused by our third party manufacturers or logistic service providers, which may lead to product liability claims**

While all manufacturing works for our home furniture are outsourced to our third party manufacturers, our Group is ultimately responsible for the quality of our home furniture. As such, we are susceptible to impacts resulting from product liability claims for manufacturing defects by our customers. To ensure the quality of home furniture manufactured by our third party manufacturers, we have imposed quality control procedures at every crucial stage of their manufacturing workflow and regularly conduct on-site quality checks on their manufacturing workflow. However, we cannot assure or guarantee that there will be no defects in the home furniture manufactured by our third party manufacturers. Further, our products are also susceptible to improper handling by third parties such as logistics service providers during the storage and delivery processes which we are unable to assure that there will be no defects in the home furniture delivered to our customers.

Additionally, in the event our products are proven to be defective, causing our customers to suffer from any injury, loss or damages, we may be liable to product liability claims under the Malaysian law or laws of other jurisdictions which may be applicable to our Group. As such, notwithstanding the outcome of the claims, we may be subject to significant legal costs. Any successful product liability claim against our Group will adversely affect our Group's business and reputation in the industry which may subsequently negatively impact our financial performance. Further, if we are able to successfully defend such claim, there can also be no assurance that we will not face a loss of confidence in our products by our customers. In the Financial Years Under Review and up to the LPD, there was no such product liability claims against our Group.

(l) We may be adversely affected by political, legal and social conditions in Malaysia and the countries where we export our products to

During the Financial Years Under Review, we primarily exported our home furniture to the UK, United Arab Emirates, the USA and other countries. Our sales from exports contributed significantly to our total revenue at 98.21%, 96.52%, 94.37% and 94.66% in FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively. As we continue to expand our business and export markets, our business operations are expected to be increasingly affected by political, economic, legal and social conditions in Malaysia as well as the countries that we export our home furniture to.

Risks that we are exposed to include, amongst others, changes in government or regulatory policies such as tax rates and interest rates, unstable economic conditions, changes in political leadership and wars. For FYE 31 December 2021, our Group was affected by the COVID-19 pandemic which temporarily affected the economic and social conditions in Malaysia and countries where we export our products to. Please refer to Section 7.17 of this Prospectus for further details on the impact to our Group arising from the COVID-19 pandemic.

These aforementioned events are beyond our control and thus we cannot assure that there would not be such occurrences in the future. Therefore, any unfavourable changes in political, economic, legal and social conditions in Malaysia and the countries we export to, may cause significant disruptions to our business operations and/or impact our financial performance.

12. FINANCIAL INFORMATION (CONT'D)

(m) Competition risk due to the competitive and fragmented nature of the home furniture industry

We operate in a competitive and fragmented home furniture industry in Malaysia due to the large number of industry players including public listed companies, large private companies as well as small to medium enterprises. The industry players in the furniture industry in Malaysia are involved in the design, development and/or manufacturing of furniture. Some industry players may cover the entire process from design and development to manufacturing of their own products, while some industry players may outsource certain processes, i.e. either design and development or manufacturing, to external parties. We compete with companies in Malaysia which are involved in the design, manufacturing and/or export of wood-based home furniture in Malaysia. We compete with these players in terms of, amongst others, product designs, range of product offerings, product quality, quick lead and delivery times, and competitive pricing.

Apart from the existing industry players, we may also face competition from new entrants. If we fail to remain competitive in the industry, our financial performance will be adversely impacted, and it may also affect the sustainability of our business.

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12. FINANCIAL INFORMATION (CONT'D)

12.2.2 Review of results of operations

(i) Revenue

Our revenue by business segment, product category, sales volume as well as geographical market for the Financial Years Under Review is as follows:

(a) Revenue by business segment

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
B2B	109,492	98.21	117,572	95.67	159,515	86.56	144,466	74.43
B2C	1,990	1.79	5,319	4.33	24,777	13.44	49,627	25.57
Total	111,482	100.00	122,891	100.00	184,292	100.00	194,093	100.00

(b) Revenue by product category

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bedroom furniture	67,208	60.29	78,818	64.14	124,005	67.29	130,898	67.44
Living room furniture	29,141	26.14	34,042	27.70	52,745	28.62	56,544	29.13
Dining room furniture	15,133	13.57	10,031	8.16	7,542	4.09	6,651	3.43
Total	111,482	100.00	122,891	100.00	184,292	100.00	194,093	100.00

12. FINANCIAL INFORMATION (CONT'D)

(c) Sales volume by business segment and product category

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	Units	%	Units	%	Units	%	Units	%
B2B								
Bedroom furniture	252,955	49.30	325,204	56.54	468,627	59.41	341,979	48.41
Living room furniture	157,042	30.60	183,305	31.87	184,766	23.42	175,783	24.89
Dining room furniture	97,542	19.01	48,821	8.49	27,997	3.55	22,133	3.13
Sub-total	507,539	98.91	557,330	96.90	681,390	86.38	539,895	76.43
B2C								
Bedroom furniture	5,600	1.09	13,093	2.28	49,887	6.33	90,911	12.87
Living room furniture	-	-	3,980	0.69	53,254	6.75	72,919	10.32
Dining room furniture	-	-	734	0.13	4,288	0.54	2,648	0.38
Sub-total	5,600	1.09	17,807	3.10	107,429	13.62	166,478	23.57
Total	513,139	100.00	575,137	100.00	788,819	100.00	706,373	100.00

12. FINANCIAL INFORMATION (CONT'D)

(d) Revenue by geographical market

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Overseas								
UK	89,190	80.00	91,280	74.28	77,993	42.32	82,287	42.40
United Arab Emirates	12,137	10.89	14,569	11.86	27,645	15.00	22,557	11.62
USA	1,614	1.45	8,960	7.29	63,918	34.68	75,724	39.01
Others ⁽¹⁾	6,551	5.87	3,801	3.09	4,355	2.37	3,170	1.63
Subtotal	109,492	98.21	118,610	96.52	173,911	94.37	183,738	94.66
Malaysia	1,990	1.79	4,281	3.48	10,381	5.63	10,355	5.34
Total	111,482	100.00	122,891	100.00	184,292	100.00	194,093	100.00

Note:

(1) Others comprise of Ireland, Australia, Canada and Asia countries, i.e., Indonesia, India, Thailand, Singapore and Lebanon.

The classifications of our Group's revenue by geographical market are based on the locations of our Group's customers.

12. FINANCIAL INFORMATION (CONT'D)**Comparison between FYE 31 December 2019 and FYE 31 December 2020**

Our revenue increased by approximately RM11.41 million or 10.24% from RM111.48 million in FYE 31 December 2019 to RM122.89 million for FYE 31 December 2020 due to increase in revenue from both B2B and B2C sales segment. Besides that, the WAFEX of USD against RM strengthened by approximately 2.16% from USD1.00:RM4.1044 for FYE 31 December 2019 to USD1.00:RM4.1929 for FYE 31 December 2020. Being that 96.52% of our revenue were denominated in USD for FYE 31 December 2020, the strengthening of USD against RM would positively affect our revenue for FYE 31 December 2020.

Revenue from the B2B sales segment is the main contributor to our revenue for FYE 31 December 2020 and has contributed approximately RM117.57 million or 95.67% of our revenue for FYE 31 December 2020 (FYE 31 December 2019: RM109.49 million or 98.21%). Please refer below for details on the analysis of our revenue by business segment.

In terms of our revenue by sale volume, total sales volume increased by 61,998 units or 12.08% from 513,139 units for FYE 31 December 2019 to 575,137 units for FYE 31 December 2020, for which bedroom furniture and living room furniture collectively contributed 91.38% of our total sales volume for FYE 31 December 2020. Sales volume for:

- (i) our bedroom furniture increased by 79,742 units or 30.84% from 258,555 units for FYE 31 December 2019 to 338,297 units for FYE 31 December 2020; and
- (ii) our living room furniture increased by 30,243 units or 19.26% from 157,042 units for FYE 31 December 2019 to 187,285 units for FYE 31 December 2020.

The total sales volume for our B2B sales segment has increased by 49,791 units or 9.81%, from 507,539 units for FYE 31 December 2019 to 557,330 units for FYE 31 December 2020. Meanwhile, the sales volume for our B2C sales segment increased by 12,207 units or 217.98% from 5,600 units for FYE 31 December 2019 to 17,807 units for FYE 31 December 2020. Bedroom furniture is the main contributor to our revenue from our B2C sales segment for FYE 31 December 2020. In addition, we have commenced selling our living room furniture and dining room furniture under our B2C sales segment during FYE 31 December 2020.

During the FYE 31 December 2020, the overseas markets were the primary contributor to our revenue, which accounted for approximately RM118.61 million (FYE 31 December 2019: RM109.49 million) or 96.52% of our revenue (FYE 31 December 2019: 98.21%). Revenue from the UK and the United Arab Emirates have contributed RM105.85 million or 86.14% of our revenue (FYE 31 December 2019: RM101.33 million or 90.89%).

Revenue by business segment: B2B

Our revenue from the B2B sales segment increased by approximately RM8.08 million or 7.38% from RM109.49 million for FYE 31 December 2019 to RM117.57 million for FYE 31 December 2020. The overseas market was the main contributor to our increase in revenue from the B2B sales segment, which recorded a growth in revenue of approximately RM7.96 million or 7.27% to RM117.45 million for FYE 31 December 2020 as compared to RM109.49 million in FYE 31 December 2019. The higher revenue was mainly attributable to increased sale orders procured from our customers as a result of our continuous efforts of focusing on designing affordable home furniture range since FYE 31 December 2019, which generally has higher demand. Thus, this has contributed to the increase in revenue from some of our customers as below:

12. FINANCIAL INFORMATION (CONT'D)

- (i) sale orders secured from a new wholesaler customer from the USA, which recorded revenue of approximately RM4.69 million for FYE 31 December 2020 (FYE 31 December 2019: Nil); and
- (ii) increase in sale orders from 3 of our existing customers from the UK, i.e., an online retailer, a chain-store retailer, and a wholesaler, which collectively recorded higher revenue of approximately RM13.24 million or 37.80% to RM48.27 million for FYE 31 December 2020 as compared to RM35.03 million for FYE 31 December 2019.

The abovementioned increases were partially offset by reduction in sale orders from a customer who is a chain-store retailer from the UK. Our revenue from said customer decreased by approximately RM10.03 million or 32.56% to RM20.77 million for FYE 31 December 2020 as compared to RM30.80 million for FYE 31 December 2019.

Revenue by business segment: B2C

Our revenue from the B2C sales segment increased by approximately RM3.33 million or 167.34% from RM1.99 million for FYE 31 December 2019 to RM5.32 million for FYE 31 December 2020. The increase in revenue from the B2C sales segment was mainly due to the following:

- (i) our Group having expanded the geographical coverage of our B2C sales to the USA in July 2020. We began to market and sell our products under third party brand names to end-consumers in the USA through Customer C Group's e-commerce platform; and
- (ii) our Group having commenced selling home furniture on an additional local third-party e-commerce platform (i.e. Shopee) in April 2020, which recorded revenue of RM0.42 million for FYE 31 December 2020 (FYE 31 December 2019: Nil).

Following our commencement of sales on Shopee and Customer C Group's e-commerce platform, our B2C revenue from third party e-commerce platforms increased by approximately RM2.76 million or 3,450.00% from RM0.08 million for FYE 31 December 2019 to approximately RM2.84 million for FYE 31 December 2020.

Our B2C revenue from selling our products via our in-house online stores (i.e. *www.tomatokidz.com* and *www.synergytomato.com*) increased by RM0.57 million or 29.84% from RM1.91 million for FYE 31 December 2019 to RM2.48 million for FYE 31 December 2020. The said increase was mainly due to the setting up of *www.synergytomato.com* during FYE 31 December 2020 which sells affordable RTA home furniture range.

Comparison between FYE 31 December 2020 and FYE 31 December 2021

Our revenue further increased by approximately RM61.40 million or 49.96% to RM184.29 million for FYE 31 December 2021 from RM122.89 million for FYE 31 December 2020 due to increase in revenue from both B2B and B2C sales segment.

For FYE 31 December 2021, revenue from the B2B sales segment remained the main contributor to our revenue at RM159.52 million or 86.56% of our revenue. However, contribution from the B2B sales segment was observed to have declined from RM117.57 million or 95.67% for FYE 31 December 2020. Please refer below for details on the analysis of our revenue by business segment.

12. FINANCIAL INFORMATION (CONT'D)

In terms of our revenue by sale volume, total sales volume increased by 213,682 units or 37.15% from 575,137 units for FYE 31 December 2020 to 788,819 units for FYE 31 December 2021, for which bedroom furniture and living room furniture collectively contributed 95.91% of our total sales volume for FYE 31 December 2021. Sales volume for:

- (i) our bedroom furniture increased by 180,217 units or 53.27% from 338,297 units in FYE 31 December 2020 to 518,514 units for FYE 31 December 2021; and
- (ii) our living room furniture increased by 50,735 units or 27.09% from 187,285 units for FYE 31 December 2020 to 238,020 units for FYE 31 December 2021.

The total sales volume for our B2B sales segment has increased by 124,060 units or 22.26% from 557,330 units for FYE 31 December 2020 to 681,390 units for FYE 31 December 2021. Meanwhile, the sales volume for our B2C sales segment increased by 89,622 units or 503.30% to 107,429 units for FYE 31 December 2021 (FYE 31 December 2020: 17,807 units). Bedroom furniture and living room furniture are the main contributor to our Group's revenue from our B2C sales segment for FYE 31 December 2021.

The overseas market continued to be the primary contributor to our revenue for FYE 31 December 2021 and has accounted for approximately RM173.91 million or 94.37% (FYE 31 December 2020: RM118.61 million or 96.52%) of our revenue for FYE 31 December 2021. Our revenue from the UK, the USA and the United Arab Emirates collectively contributed RM169.56 million or 92.00% of our Group's revenue for FYE 31 December 2021 (FYE 31 December 2020: RM114.81 million or 93.43%).

Revenue by business segment: B2B

Our Group's revenue from the B2B sales segment increased further by approximately RM41.95 million or 35.68% from RM117.57 million for FYE 31 December 2020 to RM159.52 million for FYE 31 December 2021. The overseas market continued to be the main contributor to the increase in our Group's revenue from the B2B sales segment and has recorded a growth in revenue of approximately RM42.05 million or 35.80% to RM159.50 million for FYE 31 December 2021 (FYE 31 December 2020: RM117.45 million). Such increase in revenue was mainly attributable to increased sales orders procured from our customers as a result of our continuous efforts of focusing on designing affordable RTA home furniture range, particularly for bedroom furniture and living room furniture. Thus, this has contributed to the increase in revenue from some of our customers as below:

- (i) higher sales orders secured from an existing wholesaler customer from the USA, which recorded an increase in revenue of approximately RM42.11 million or 897.87% from RM4.69 million for FYE 31 December 2020 to RM46.80 million for FYE 31 December 2021;
- (ii) increase in sales orders secured from an existing chain store retailer customer from the United Arab Emirates, which recorded higher revenue of approximately RM13.11 million or 90.23% from RM14.53 million for FYE 31 December 2020 to RM27.64 million for FYE 31 December 2021; and
- (iii) higher sales orders secured from an online retailer customer from the UK, which recorded an increase in revenue by RM5.68 million or 114.29% from RM4.97 million for FYE 31 December 2020 to approximately RM10.65 million for FYE 31 December 2021.

12. FINANCIAL INFORMATION (CONT'D)

The abovementioned increases were partially offset by reduction in sale orders from 2 UK customers, i.e., a chain-store retailer and an online retailer. Our revenue from said customers collectively decreased by approximately RM19.34 million or 30.46% from RM63.50 million for FYE 31 December 2020 to RM44.16 million for FYE 31 December 2021.

Revenue by business segment: B2C

Our revenue from the B2C sales segment increased significantly by approximately RM19.46 million or 365.79% from RM5.32 million for FYE 31 December 2020 to RM24.78 million for FYE 31 December 2021. The said increase was due to higher local and overseas' revenue from our B2C sales segment. Such increase was mainly due to the COVID-19 pandemic, which has led to a shift in consumers' behaviour, leading to a rise in work-from-home and virtual class practices, and consumers having shifted towards online purchases. This has contributed positively to our revenue from the B2C sales segment as demand for our home furniture increased.

The increase in revenue from the B2C sales segment was mainly due to the following:

- (i) our local revenue from the B2C sales segment increased by approximately RM6.21 million or 149.28% from RM4.16 million for FYE 31 December 2020 to RM10.37 million for FYE 31 December 2021. The increase was mainly due to higher revenue from a local third party e-commerce platform, namely Shopee, which increased by approximately RM6.79 million or 1,616.67% to RM7.21 million (FYE 31 December 2020: RM0.42 million); and
- (ii) in terms of overseas B2C sales, the expansion of our B2C sales to the USA market since July 2020 via Customer C Group's e-commerce platform has contributed to higher revenue by approximately RM13.25 million or 1,142.24% from RM1.16 million for FYE 31 December 2020 to RM14.41 million for FYE 31 December 2021.

Overall, the growth in our local and overseas B2C markets was mainly due to our Group offering more home furniture designs and reaching a wider customer base through third party e-commerce platforms during FYE 31 December 2021. As such, our B2C revenue from third party e-commerce platforms had collectively recorded a growth in revenue of approximately RM20.64 million or 726.76% from RM2.84 million in FYE 31 December 2020 to RM23.48 million for FYE 31 December 2021, representing 94.75% of our B2C revenue for FYE 31 December 2021 (FYE 31 December 2020: 53.38%).

Our B2C revenue from selling our products via our in-house online stores decreased by approximately RM1.19 million or 47.98% from RM2.48 million in FYE 31 December 2020 to RM1.29 million for FYE 31 December 2021. The decrease was mainly attributable to reduction in promotional activities for our in-house online stores as well as us having shifted our focus to selling products on third party e-commerce platforms. Further, with the prevalence of third party-e-commerce platforms, our Group is able to achieve greater visibility and market reach to a broader base of customers as compared to our in-house online stores. Our Group will focus on the growth of B2C sales through third party e-commerce platforms and at the same time, remain in-house online store for self pick-up by our Malaysian B2C end-consumers.

12. FINANCIAL INFORMATION (CONT'D)**Comparison between FYE 31 December 2021 and FYE 31 December 2022**

Our revenue increased by approximately RM9.80 million or 5.32% to RM194.09 million for FYE 31 December 2022 from RM184.29 million for FYE 31 December 2021 due to the increase in revenue from our B2C sales segment. Besides that, the WAFEX of USD against RM strengthened by approximately 5.35% from USD1.00: RM4.1322 for FYE 31 December 2021 to USD1.00: RM4.3534 for FYE 31 December 2022. As 94.57% of our revenue was in USD for FYE 31 December 2022, the strengthening of USD against RM had positively affected our revenue for FYE 31 December 2022.

Revenue from the B2B sales segment was the main contributor to our revenue amounting to RM144.47 million or 74.43% of our revenue for FYE 31 December 2022 (FYE 31 December 2021: RM159.52 million or 86.56%). Please refer below for details on the analysis of our revenue by business segment.

In terms of our revenue by sales volume, total sales volume decreased by 82,446 units or 10.45% from 788,819 units for FYE 31 December 2021 to 706,373 units for FYE 31 December 2022, for which bedroom furniture and living room furniture collectively contributed 96.49% of our total sales volume for FYE 31 December 2022 (FYE 31 December 2021: 95.91%). Sales volume for:

- (i) our bedroom furniture decreased by 85,624 units or 16.51% from 518,514 units for FYE 31 December 2021 to 432,890 units for FYE 31 December 2022, and
- (ii) our living room furniture increased by 10,682 units or 4.49% from 238,020 units for FYE 31 December 2021 to 248,702 units for FYE 31 December 2022.

The total sales volume for our B2B sales segment decreased by 141,495 units or 20.77% from 681,390 units for FYE 31 December p2021 to 539,895 units for FYE 31 December 2022, mainly due to decrease in sales orders for bedroom furniture from an existing wholesaler customer from the USA.

Meanwhile, the sales volume for our B2C sales segment increased by 59,049 units or 54.97% to 166,478 units for FYE 31 December 2022 (FYE 31 December 2021: 107,429 units). Bedroom furniture and living room furniture are the main contributors to our total revenue for both B2B and B2C sales segments for FYE 31 December 2022.

The overseas market was the primary contributor to our revenue for FYE 31 December 2022 and has accounted for approximately RM183.74 million or 94.66% of our total revenue for FYE 31 December 2022 (FYE 31 December 2021: RM173.91 million or 94.37%). Our revenue from the UK, the USA and the United Arab Emirates collectively contributed RM180.57 million or 93.03% of our total revenue for FYE 31 December 2022 (FYE 31 December 2021: RM169.56 million or 92.00%).

12. FINANCIAL INFORMATION (CONT'D)**Revenue by business segment: B2B**

Our revenue from the B2B sales segment decreased by approximately RM15.05 million or 9.43% from RM159.52 million for FYE 31 December 2021 to RM144.47 million for FYE 31 December 2022. We recorded a lower sales volume from the B2B sales segment, which decreased by 141,495 units or 20.77% from 681,390 units for FYE 31 December 2021 to 539,895 units for FYE 31 December 2022. The revenue from the B2B sales segment was lower during FYE 31 December 2022 due to lower sale orders from the following customers:

- (i) an existing wholesaler customer from the USA, which recorded a decrease in revenue of approximately RM11.92 million or 25.47% from RM46.80 million for FYE 31 December 2021 to RM34.88 million for FYE 31 December 2022;
- (ii) an existing online retailer customer from the UK, which recorded a decrease in revenue of approximately RM5.49 million or 51.55% from RM10.65 million for FYE 31 December 2021 to RM5.16 million for FYE 31 December 2022; and
- (iii) an existing chain store retailer customer from the United Arab Emirates, which recorded a decrease in revenue of approximately RM5.47 million or 19.79% from RM27.64 million for FYE 31 December 2021 to RM22.17 million for FYE 31 December 2022.

The abovementioned decreases were partially offset by the increase in sale orders from the following customers:

- (i) an existing online retailer customer from the UK, which recorded an increase in revenue of approximately RM3.01 million or 23.55% from RM12.78 million for FYE 31 December 2021 to RM15.79 million for FYE 31 December 2022; and
- (ii) an existing online retailer customer from the UK, which recorded an increase in revenue of approximately RM5.36 million or 19.80% from RM27.07 million for FYE 31 December 2021 to RM32.43 million for FYE 31 December 2022.

Revenue by business segment: B2C

Our revenue from the B2C sales segment increased by approximately RM24.85 million or 100.28% from RM24.78 million for FYE 31 December 2021 to RM49.63 million for FYE 31 December 2022. The said increase was due to higher demand for our bedroom furniture and living room furniture during FYE 31 December 2022.

The increase in revenue from the B2C sales segment was mainly due to the increase in revenue from our overseas B2C sales segment whereby our continuous expansion in the USA, Canada and the UK market via Customer C Group's e-commerce platform contributed to higher revenue by approximately RM23.10 million or 160.31% from RM14.41 million for FYE 31 December 2021 to RM37.51 million for FYE 31 December 2022. Such revenue growth was also due to our Group having offered more home furniture designs and reaching a wider customer base through third party e-commerce platforms during FYE 31 December 2022.

12. FINANCIAL INFORMATION (CONT'D)

The increase in revenue from our overseas B2C sales segment was partially offset by the decrease in our local B2C sales segment by approximately RM0.04 million or 0.39% from RM10.37 million for FYE 31 December 2021 to RM10.33 million for FYE 31 December 2022 mainly due to the following:

- (i) our Group having ceased the operation of our first in-house online store at *www.tomatokidz.com* in December 2021; and
- (ii) decrease in sales on Lazada by approximately RM0.73 million or 39.04% from RM1.87 million for FYE 31 December 2021 to RM1.14 million for FYE 31 December 2022. This was mainly due to our Group having shifted our focus to Shopee as our Group joined a marketing promotion plan offered by Shopee in June to September 2022, in which our Group allocated more resources to sales on Shopee, compared to Lazada. Correspondingly, our sales on Shopee increased by approximately RM0.85 million or 11.79% from RM7.21 million for FYE 31 December 2021 to RM8.06 million for FYE 31 December 2022.

Our B2C revenue from third party e-commerce platforms is our main contributor to our B2C sales segment whereby our revenue from third party e-commerce platforms had collectively recorded a growth in revenue of approximately RM25.24 million or 107.50% from RM23.48 million for FYE 31 December 2021 to RM48.72 million for FYE 31 December 2022, representing 98.16% of our B2C revenue for FYE 31 December 2022 (FYE 31 December 2021: 94.78%).

Our B2C revenue from selling our home furniture via our in-house online stores decreased by approximately RM0.38 million or 29.46% from RM1.29 million for FYE 31 December 2021 to RM0.91 million for FYE 31 December 2022. This was mainly due to the absence of revenue from our first in-house online store at *www.tomatokidz.com* during FYE 31 December 2022 (FYE 31 December 2021: RM0.41 million) as our Group ceased the operation of this in-house online store in December 2021 and shifted our focus to selling our products on third party e-commerce platforms. With the prevalence of third party-e-commerce platforms, our Group is able to achieve greater visibility and market reach to a broader base of customers via third party e-commerce platforms as compared to our in-house online store. Whilst our Group continues to focus on the growth of B2C sales through third party e-commerce platforms, we remain our in-house online store at *www.synergytomato.com* for self-pick-up by our Malaysian B2C end-consumers.

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12. FINANCIAL INFORMATION (CONT'D)

(ii) Cost of sales

(a) Cost of sales by cost components

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Manufacturing costs ⁽¹⁾	86,466	96.45	92,755	96.19	143,342	97.19	142,835	96.68
D&D costs	2,237	2.50	2,457	2.55	2,966	2.01	3,778	2.56
QC costs	940	1.05	1,213	1.26	1,184	0.80	1,120	0.76
Total	89,643	100.00	96,425	100.00	147,492	100.00	147,733	100.00

Note:

(1) Comprise mainly our third party manufacturing costs for our home furniture, purchase of raw material costs, freight, warehouse and handling charges as well as import-related charges.

(b) Cost of sales by business segments

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
B2B	88,404	98.62	92,799	96.24	133,767	90.69	114,629	77.59
B2C	1,239	1.38	3,626	3.76	13,725	9.31	33,104	22.41
Total	89,643	100.00	96,425	100.00	147,492	100.00	147,733	100.00

12. FINANCIAL INFORMATION (CONT'D)

(c) Cost of sales by product category

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bedroom furniture	52,412	58.47	61,658	63.94	104,706	70.99	104,212	70.54
Living room furniture	23,262	25.95	26,413	27.39	36,293	24.61	37,984	25.71
Dining room furniture	13,969	15.58	8,354	8.67	6,493	4.40	5,537	3.75
Total	89,643	100.00	96,425	100.00	147,492	100.00	147,733	100.00

(iii) GP and GP margin

(a) GP and GP margin by business segments

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	GP RM'000	GP margin %	GP RM'000	GP margin %	GP RM'000	GP margin %	GP RM'000	GP margin %
B2B	21,088	19.26	24,773	21.07	25,748	16.14	29,837	20.65
B2C	751	37.74	1,693	31.83	11,052	44.61	16,523	33.29
Total GP/Overall GP margin	21,839	19.59	26,466	21.54	36,800	19.97	46,360	23.89

12. FINANCIAL INFORMATION (CONT'D)

(b) GP and GP margin by product category

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	GP		GP		GP		GP	
	RM'000	margin	RM'000	margin	RM'000	margin	RM'000	margin
		%		%		%		%
Bedroom furniture	14,796	22.02	17,160	21.77	19,299	15.56	26,686	20.39
Living room furniture	5,879	20.17	7,629	22.41	16,452	31.19	18,560	32.82
Dining room furniture	1,164	7.69	1,677	16.72	1,049	13.91	1,114	16.75
Total GP/Overall GP margin	21,839	19.59	26,466	21.54	36,800	19.97	46,360	23.89

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12. FINANCIAL INFORMATION (CONT'D)**Comparison between FYE 31 December 2019 and FYE 31 December 2020**

Our cost of sales increased by approximately RM6.79 million or 7.57% from RM89.64 million for FYE 31 December 2019 to RM96.43 million for FYE 31 December 2020. The increase in our costs of sales was in tandem with the increase in our revenue.

In terms of our cost of sales by cost components, all of our cost components have increased in FYE 31 December 2020 compared to FYE 31 December 2019 as follows:

- (aa) manufacturing costs increased by approximately RM6.29 million or 7.27% from RM86.47 million for FYE 31 December 2019 to RM92.76 million for FYE 31 December 2020, which was in tandem with the increase in our revenue.
- (bb) D&D costs increased by approximately RM0.22 million or 9.82% from RM2.24 million for FYE 31 December 2019 to RM2.46 million for FYE 31 December 2020 mainly due to the following:
 - (i) increase in bonuses for our D&D staff; and
 - (ii) expansion of our D&D team through increasing headcount by 4 to 16 staff as at 31 December 2020 (As at 31 December 2019: 12 staff).
- (cc) QC costs increased by approximately RM0.27 million or 28.72% from RM0.94 million for FYE 31 December 2019 to RM1.21 million for FYE 31 December 2020 mainly due to increase in staff costs arising from the recruitment of 2 additional QC staff during the FYE 31 December 2020 as well as annual increment for staffs.

Our GP increased by approximately RM4.63 million or 21.20% from RM21.84 million for FYE 31 December 2019 to RM26.47 million for FYE 31 December 2020. The increase was in tandem with the increase in our revenue which recorded a 10.24% growth during the same period. Bedroom furniture and living room furniture collectively contributed 93.66% of our GP for FYE 31 December 2020.

We recorded growth in GP across all of our business segments and product categories during FYE 31 December 2020. The improvement in the GP was primarily attributable to the increase in sales volume for our home furniture following the implementation of our business strategy, i.e., by focusing on the design of affordable RTA home furniture, which typically yields better margins.

Under our B2B sales segment, our home furniture are sold to online retailers, chain-store retailers and wholesalers in bulk based on purchase orders from these customers. Online retailers will then sell the products to end-consumers through e-commerce platforms, while chain-store retailers will mainly sell the products to end-consumers in physical stores and/or through e-commerce platforms. Further, our home furniture sold to wholesalers may be distributed to retailers for onward sales to end-consumers. Therefore, the B2B sales segment will generally generate a lower GP margin as compared to our B2C sales segment whereby our home furniture are sold to end-consumers directly through our in-house online store and third party e-commerce platforms.

The GP margin for our B2B sales segment improved to 21.07% for FYE 31 December 2020 (FYE 31 December 2019: 19.26%), mainly due to the increase in sales to UK and the USA, which recorded an increase in GP margins to 22.57% (FYE 31 December 2019: 20.22%) and 23.98% for FYE 31 December 2020 (FYE 31 December 2019: 11.90%) respectively.

12. FINANCIAL INFORMATION (CONT'D)

We recorded a decrease in our GP margin for our B2C sales segment. The said decrease was mainly due to us offering sales promotions for our home furniture sold through third party e-commerce platforms to entice purchases from end-consumers in our B2C sales segment during FYE 31 December 2020. Thus, this has also resulted in a decrease in GP margin for Malaysia and bedroom furniture.

Despite having recorded a decrease in revenue from dining room furniture of RM5.10 million or 33.71% to RM10.03 million for FYE 31 December 2020 (FYE 31 December 2019: RM15.13 million), our GP margin for dining room furniture has improved to 16.72% for FYE 31 December 2020 (FYE 31 December 2019: 7.69%). The increase in GP margin was mainly contributed by our Group's strategy to focus on designing affordable dining room furniture using wood panel products instead of solid wood, which has more flexibility in terms of design and typically yields better GP margin as well.

In addition, being that most of our revenue was denominated in USD, the strengthening of the WAFEX of USD against RM from USD1.00:RM4.1044 for FYE 31 December 2019 to USD1.00:RM4.1929 for FYE 31 December 2020 would positively affect our GP and GP margin for FYE 31 December 2020.

Comparison between FYE 31 December 2020 and FYE 31 December 2021

Our cost of sales increased by approximately RM51.06 million or 52.95% from RM96.43 million for FYE 31 December 2020 to RM147.49 million for FYE 31 December 2021. The increase in our costs of sales was in tandem with the increase in our revenue.

In terms of our cost of sales by cost components, most of our cost components have increased in FYE 31 December 2021 compared to FYE 31 December 2020 as follows:

- (aa) manufacturing costs increased by approximately RM50.58 million or 54.53% from RM92.76 million for FYE 31 December 2020 to RM143.34 million for FYE 31 December 2021. This was mainly attributable to higher outsourced manufacturing costs due to the shortage of furniture raw materials resulting from global supply chain disruption during FYE 31 December 2021.
- (bb) D&D costs increased by approximately RM0.51 million or 20.73% from RM2.46 million for FYE 31 December 2020 to RM2.97 million for FYE 31 December 2021 mainly due to sourcing fees being incurred for inspection of the production process of our third party manufacturers in FYE 31 December 2021.
- (cc) QC costs for FYE 31 December 2021 of RM1.18 million were relatively stable as compared to RM1.21 million for FYE 31 December 2020. The fluctuation in QC costs was not in line with the fluctuations in revenue, mainly because most of the QC costs were fixed in nature, i.e., staff costs.

Our GP increased by approximately RM10.33 million or 39.03% from RM26.47 million for FYE 31 December 2020 to RM36.80 million for FYE 31 December 2021. Bedroom furniture and living room furniture collectively contributed 97.15% of our GP for FYE 31 December 2021.

We recorded improvement in GP across all our business segments during FYE 31 December 2021. Such improvement was mainly due to the continuous efforts of our business strategy to focus on the design of affordable RTA home furniture, which in turn contributed to the growth in the sales volume of our home furniture.

12. FINANCIAL INFORMATION (CONT'D)

We recorded an increase in GP for bedroom furniture by approximately RM2.14 million or 12.47% from RM17.16 million for FYE 31 December 2020 to RM19.30 million for FYE 31 December 2021, and living room furniture by approximately RM8.82 million or 115.60% from RM7.63 million for FYE 31 December 2020 to RM16.45 million for FYE 31 December 2021. Our GP for dining room furniture decreased by approximately RM 0.63 million or 37.50% from RM1.68 million for FYE 31 December 2020 to RM1.05 million for FYE 31 December 2021. This increase in GP for bedroom furniture and living room furniture was mainly due to continuing efforts from our business strategy of focusing on the design of affordable RTA home furniture, which in turn contributed to the growth in the sales volume of our home furniture. The decrease in GP for dining room furniture was in tandem with the lower revenue for dining room furniture for FYE 31 December 2021, which in turn was due to our Group placing less emphasis on the design of dining room furniture which required solid wood.

Our Group's overall GP margin decreased to 19.97% for FYE 31 December 2021 (FYE 31 December 2020: 21.54%), mainly attributable to the decrease in our GP margin for our B2B sales segment to 16.14% for FYE 31 December 2021 (FYE 31 December 2020: 21.07%), despite our B2C GP having increased from 31.83% in FYE 31 December 2020 to 44.61% in FYE 31 December 2021.

The lower GP margin for our B2B sales segment was primarily attributable to higher outsourced manufacturing costs due to the shortage of furniture raw materials resulting from global supply chain disruption in the global supply chain, and this has affected our Group's suppliers, including those from Malaysia and overseas. The increase in outsourced manufacturing costs incurred from said suppliers were eventually passed on to our Group.

In addition, the COVID-19 pandemic had resulted in some of our customers deferring the delivery of their orders from FYE 31 December 2020 to FYE 31 December 2021. As a result, our Group had delivered said customer orders in FYE 31 December 2021, but the revenue received was based on pre-agreed selling prices in FYE 31 December 2020. As such, our Group could not pass on the increase in outsourced manufacturing costs to the customers for these deferred and confirmed orders.

Our Group's revenue is susceptible to the risk of increasing manufacturing costs charged by third party manufacturers which may result from price fluctuation in furniture raw materials. The impact of increased raw material prices will be passed on to our customers for new sales orders from our B2B and B2C customers. As the selling prices for our sales orders from B2B customers had been pre-agreed, any significant increase in the prices of furniture raw materials resulting in the increase in manufacturing costs charged by our third party manufacturers will have an adverse impact on our GP margin for our B2B sales segment due to the time lag between the pre-agreed selling prices with our customers and the actual increase of manufactured costs charged by third party manufacturers.

Our B2C sales segment recorded an increase in GP by approximately RM9.36 million or 553.85% from RM1.69 million for FYE 31 December 2020 to RM11.05 million for FYE 31 December 2021, which was in tandem with our revenue growth. Our Group recorded an increase in our GP margin for the B2C sales segment to 44.61% for FYE 31 December 2021 (FYE 31 December 2020: 31.83%), mainly attributable to higher sales to the USA via Customer C Group's e-commerce platform in the USA.

We recorded a lower GP margin for our local market, which decreased to 16.45% for FYE 31 December 2021 (FYE 31 December 2020: 33.45%). Such decrease was mainly attributable to us offering more promotional activities for our home furniture sold on local third party e-commerce platforms to entice purchases from end-consumers.

12. FINANCIAL INFORMATION (CONT'D)

The GP margin for our bedroom furniture and dining room furniture decreased to 15.56% and 13.91% respectively for FYE 31 December 2021 (FYE 31 December 2020: 21.77% and 16.72% respectively) mainly due to the COVID-19 pandemic, which caused delays in shipments and the shortage of raw materials, resulting in an increase in the price of raw materials during FYE 31 December 2021. We were unable to transfer some of the higher manufacturing costs to our customers, mainly because some of our home furniture delivered during FYE 31 December 2021 were related to our backlog sales orders due to the COVID-19 pandemic, which had pre-agreed sales prices with our customers. Thus, we recorded a lower GP margin for our bedroom furniture and dining room furniture for FYE 31 December 2021.

The increase in our GP margin for our living room furniture to 31.19% for FYE 31 December 2021 (FYE 31 December 2020: 22.41%) was mainly due to the sale of our living room furniture under our B2C sales segment, which was able to generate a better GP margin from sales to the USA via Customer C Group's e-commerce platform in the USA.

The WAFEX of USD against RM weakened by approximately 1.45% from USD1.00: RM4.1929 for FYE 31 December 2020 to USD1.00: RM4.1322 for FYE 31 December 2021. Being that most of our revenue are denominated in USD, the weakening of USD against RM would negatively affect our GP and GP margin for FYE 31 December 2021.

Comparison between FYE 31 December 2021 and FYE 31 December 2022

Our cost of sales increased by approximately RM0.24 million or 0.16% from RM147.49 million for FYE 31 December 2021 to RM147.73 million for FYE 31 December 2022.

In terms of our cost of sales by cost components, our cost components for D&D costs increased by approximately RM0.81 million or 27.27% from RM2.97 million for FYE 31 December 2021 to RM3.78 million for FYE 31 December 2022, mainly due to the following:

- (i) increase in the D&D staff costs by RM0.48 million or 28.07% from RM1.71 million for FYE 31 December 2021 to RM2.19 million for FYE 31 December 2022 mainly due to staff annual increment;
- (ii) increase in upkeep and maintenance costs by RM0.19 million or 82.61% from RM0.23 million for FYE 31 December 2021 to RM0.42 million for FYE 31 December 2022; and
- (iii) increase in purchasing costs by RM0.12 million or 85.71% from RM0.14 million for FYE 31 December 2021 to RM0.26 million for FYE 31 December 2022 mainly due to the increase in number of prototypes being developed and assembled for our home furniture designs by our D&D team.

The abovementioned was partially offset by the decrease in manufacturing costs by approximately RM0.50 million or 0.35% from RM143.34 million for FYE 31 December 2021 to RM142.84 million for FYE 31 December 2022, which was mainly due to downward revision in manufacturing costs for dining room furniture towards the end of FYE 31 December 2022 as we were able to obtain more favorable purchase price from our third party manufacturers.

12. FINANCIAL INFORMATION (CONT'D)

QC costs for FYE 31 December 2022 of RM1.12 million were relatively stable as compared to RM1.18 million for FYE 31 December 2021. The fluctuation in QC costs was not in line with the fluctuations in revenue, mainly because most of the QC costs were fixed in nature, i.e., staff costs.

Our GP further increased by approximately RM9.56 million or 25.98% from RM36.80 million for FYE 31 December 2021 to RM46.36 million for FYE 31 December 2022. Bedroom furniture and living room furniture have continued to be the main contributors to our GP and have collectively contributed 97.60% of our GP for FYE 31 December 2022 (FYE 31 December 2021: 97.15%).

We continued to record improvement in our GP across all our business segments during FYE 31 December 2022. Such improvement was mainly due to the following:

- (i) the continuous efforts of our business strategy to focus on the design of affordable RTA home furniture which led to growth in the sales volume of our home furniture;
- (ii) the upwards revision in the selling prices of our home furniture during FYE 31 December 2022; and
- (iii) the growth in our revenue from the B2C sales segment via Customer C Group's e-commerce platform, which generally yielded a better GP margin.

Our bedroom furniture's GP grew by approximately RM7.39 million or 38.29% from RM19.30 million for FYE 31 December 2021 to RM26.69 million for FYE 31 December 2022, despite recording a revenue growth for bedroom furniture of 5.56% during the same period. This was mainly due to the upwards revision in selling prices during FYE 31 December 2022 and increase in sales volume for our bedroom furniture sales through Customer C Group's e-commerce platform for the B2C sales segment, which generally yielded a better GP margin. Correspondingly, our GP margin for bedroom furniture improved to 20.39 % for FYE 31 December 2022 (FYE 31 December 2021: 15.56%).

The GP for our living room furniture increased by approximately RM2.11 million or 12.83% from RM16.45 million for FYE 31 December 2021 to RM18.56 million for FYE 31 December 2022, despite having recorded a revenue growth for living room furniture of 7.20% for our living room furniture during the same period. This was primarily attributable to the higher sales volume for living room furniture from the B2C sales segment for FYE 31 December 2022 as compared to FYE 31 December 2021, which generally yielded a better GP margin. This has resulted in our GP margin for living room furniture increasing from 31.19% for FYE 31 December 2021 to 32.82% for FYE 31 December 2022.

We recorded higher GP for dining room furniture, which increased by approximately RM0.06 million or 5.71% from RM1.05 million for FYE 31 December 2021 to RM1.11 million for FYE 31 December 2022. The increase in GP was mainly due to downward revision in manufacturing costs for dining room furniture towards the end of FYE 31 December 2022 as we were able to obtain more favorable purchase price from our third party manufacturers.

Our overall GP margin increased to 23.89% for FYE 31 December 2022 (FYE 31 December 2021: 19.97%) which was mainly attributable to the increase in our GP margin for our B2B sales segment to 20.65% for FYE 31 December 2022 (FYE 31 December 2021: 16.14%), despite our B2C sales segment GP margin having decreased from 44.61% for FYE 31 December 2021 to 33.29% for FYE 31 December 2022.

12. FINANCIAL INFORMATION (CONT'D)

The higher GP margin for our B2B sales segment was primarily attributable to the upwards revision in selling prices of our home furniture during FYE 31 December 2022.

Our B2C sales segment recorded an increase in GP of approximately RM5.47 million or 49.50% from RM11.05 million for FYE 31 December 2021 to RM16.52 million for FYE 31 December 2022, which was in tandem with our B2C sales segment's revenue growth during the same period. Our GP margin for the B2C sales segment decreased to 33.29% for FYE 31 December 2022 (FYE 31 December 2021: 44.61%), mainly attributable to us offering more promotional activities for our home furniture sold on third party e-commerce platforms to entice purchases from end-consumers.

The WAFEX of USD against RM strengthened by approximately 5.35% from USD1.00: RM4.1322 for FYE 31 December 2021 to USD1.00: RM4.3534 for FYE 31 December 2022. Being that most of our revenue is in USD, the strengthening of USD against RM had positively affected our GP and GP margin for FYE 31 December 2022.

(iv) Other income

The breakdown of our other income for the Financial Years Under Review is as follows:

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Realised gain on foreign exchange	1,341	58.18	-	-	388	28.01	1,049	39.51
Shipping charges ⁽¹⁾	10	0.43	27	2.25	249	17.98	455	17.14
Interest income ⁽²⁾	410	17.79	656	54.58	275	19.86	181	6.82
Rental income	448	19.44	224	18.64	145	10.47	384	14.46
Gain on disposal of property, plant and equipment	27	1.17	88	7.32	121	8.74	12	0.45
Compensation ⁽³⁾	-	-	-	-	98	7.08	405	15.25
Government wage subsidies	-	-	146	12.15	-	-	-	-
Others ⁽⁴⁾	69	2.99	61	5.06	109	7.86	169	6.37
Total	2,305	100.00	1,202	100.00	1,385	100.00	2,655	100.00

Notes:

- (1) Comprise shipping charges received from our local B2C customers.
- (2) Comprise interest income from fixed and short-term deposits as well as advances to suppliers and related parties. Prior to FYE 31 December 2021, our Group made advances to suppliers for the purchase of raw materials. Our Group has ceased to make any advances to suppliers from FYE 31 December 2021 onwards.
- (3) Comprise mainly compensation from third party e-commerce fulfillment centre in respect of stock count discrepancy and any damaged inventories caused by the logistic and warehouse service provider.
- (4) Comprise mainly income from sales of recyclable items, display goods and samples, financial incentives from the Malaysian Timber Council to purchase edge banding machine, gain on lease modification and other investment from unit trusts.

12. FINANCIAL INFORMATION (CONT'D)**Comparison between FYE 31 December 2019 and FYE 31 December 2020**

Our Group's other income decreased by approximately RM1.11 million or 48.05% from RM2.31 million for FYE 31 December 2019 to RM1.20 million for FYE 31 December 2020. The decrease was mainly attributable to the following:

- (a) absence of realised gain on foreign exchange for FYE 31 December 2020 due to the USD weakening against RM in the second half of FYE 31 December 2020; and
- (b) the termination of tenancy by our tenant in June 2020 which had contributed to decreased rental income for FYE 31 December 2020.

The decrease in other income above was partially offset by the increase in other income as follows:

- (a) government wage subsidies of approximately RM0.15 million received in FYE 31 December 2020, a temporary financial assistance programme by the Government introduced to assist small and medium enterprises as a result of the COVID-19 pandemic; and
- (b) higher interest income from fixed and short-term deposits of approximately RM0.05 million and interest received from the advances to related parties and suppliers of approximately RM0.20 million.

Comparison between FYE 31 December 2020 and FYE 31 December 2021

Our Group's other income increased by approximately RM0.19 million or 15.83% from RM1.20 million for FYE 31 December 2020 to RM1.39 million for FYE 31 December 2021. The increase was mainly due to increase in the following:

- (a) realised gain on foreign exchange by approximately RM0.39 million as a result of the strengthening of USD against RM during FYE 31 December 2021;
- (b) shipping charges received from customers by approximately RM0.22 million; and
- (c) compensation of approximately RM0.10 million from third party e-commerce fulfillment centre in respect of stock count discrepancy and any damaged inventories caused by the logistic and warehouse service provider.

The increase in other income above was partially offset by the decrease in other income as follows:

- (a) decrease in interest income mainly from the following:
 - (aa) lower fixed and short term deposits interests of approximately RM0.14 million as a result of lesser placement of fixed deposits with licensed banks;
 - (bb) a decrease in interests from advances to related parties and suppliers of approximately RM0.24 million; and
- (b) absence of government wage subsidies for FYE 31 December 2021 as such subsidies are temporary financial assistance programme introduced by the Government to assist small and medium enterprises as a result of the COVID-19 pandemic (FYE 31 December 2020: RM0.15 million).

12. FINANCIAL INFORMATION (CONT'D)**Comparison between FYE 31 December 2021 and FYE 31 December 2022**

Our Group's other income increased by approximately RM1.27 million or 91.37% from RM1.39 million for FYE 31 December 2021 to RM2.66 million for FYE 31 December 2022. The increase was mainly due to the increase in the following:

- (a) realised gain on foreign exchange of approximately RM0.66 million mainly due to the strengthening of USD against RM during FYE 31 December 2022;
- (b) rental income of approximately RM0.24 million mainly from rental of our leasehold land located in Klang which is used for storage of containers; and
- (c) compensation of approximately RM0.31 million from third party e-commerce fulfillment centre in respect of stock count discrepancy and any damaged inventories caused by the logistic and warehouse service provider.

(v) Selling and distribution expenses

The breakdown of our selling and distribution expenses for the Financial Years Under Review is as follows:

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
RM'000	%	RM'000	%	RM'000	%	RM'000	%	
Freight, transportation, storage and fulfilment services costs ⁽¹⁾	942	29.82	1,121	34.62	3,154	45.72	5,634	48.42
Staff costs	722	22.86	1,159	35.80	2,259	32.74	3,028	26.02
Marketing expenses ⁽²⁾	338	10.70	162	5.00	316	4.58	1,097	9.43
Depreciation of right-of-use assets ⁽³⁾	274	8.67	525	16.21	389	5.64	195	1.68
Depreciation of property, plant and equipment	-	-	-	-	132	1.91	191	1.64
E-commerce platform charges ⁽⁴⁾	-	-	25	0.77	245	3.55	659	5.66
Insurance	4	0.13	44	1.36	230	3.33	242	2.08
Upkeep of showroom	101	3.20	86	2.66	50	0.72	281	2.41
Travelling and accommodation expenses	235	7.44	70	2.16	21	0.30	178	1.53
Rental expenses ⁽³⁾	468	14.81	5	0.15	-	-	-	-
Others ⁽⁵⁾	75	2.37	41	1.27	103	1.51	131	1.13
Total	3,159	100.00	3,238	100.00	6,899	100.00	11,636	100.00

Notes:

- (1) Comprise mainly freight, handling, transport and storage and fulfilment services costs.

12. FINANCIAL INFORMATION (CONT'D)

- (2) *Comprise mainly advertisement expenses, exhibition expenses, and other marketing support expenses. Included in the marketing expenses were e-commerce related advertising and promotion expenses of RM0.14 million, RM0.09 million, RM0.31 million, and RM1.07 million incurred for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively.*
- (3) *Depreciation of right-of-use assets was in relation to the recognition of showroom rental expenses pursuant to MFRS 16 Leases. Certain showroom rental expenses remained classified as rental expenses for FYE 31 December 2019, mainly due to there were no formal written tenancy agreements to support the enforceable right to use these assets pursuant to MFRS 16 Leases.*
- (4) *Comprise third party e-commerce platform-related charges.*
- (5) *Comprise mainly inspection charges and trademark registration fees.*

Comparison between FYE 31 December 2019 and FYE 31 December 2020

Our selling and distribution expenses increased by approximately RM0.08 million or 2.53% from RM3.16 million for FYE 31 December 2019 to RM3.24 million for FYE 31 December 2020. The increase was mainly due to the following:

- (a) increase in freight, transportation, storage and fulfilment services costs of approximately RM0.18 million, mainly due to the delivery of orders received via a new third party e-commerce platform in the USA during the FYE 31 December 2020; and
- (b) increase in staff costs of approximately RM0.44 million mainly attributable to our annual salary increment and bonuses as well as increase in our sales and marketing department headcount to 22 staff as at 31 December 2020 (as at 31 December 2019: 21 staff). The increase in headcount was due to the expansion in our B2C sales segment via third party e-commerce platforms during the FYE 31 December 2020.

The increase in selling and distribution expenses above was partially offset by the decrease in selling and distribution expenses as follows:

- (a) decrease in depreciation charges of rights-of-use assets of approximately RM0.21 million arising from showroom rental expenses. The said decrease was due to the early termination of one of our B2C showroom located at Damansara, Selangor in June 2020 as well as another B2C showroom located at G. Village, Kuala Lumpur in July 2019;
- (b) decrease in marketing expenses of approximately RM0.18 million mainly attributable to the absence of participation and/or visitations made to any third party trade fairs and exhibitions during FYE 31 December 2020. In light of the COVID-19 pandemic, many third party trade fairs and exhibitions have been cancelled or postponed to adhere to the rules and regulations set by the relevant authorities of the respective countries to curb the spread of the COVID-19. Further, we have not organised any in-house roadshows locally to adhere to the rules and regulations set by the Government; and
- (c) decrease in travelling and accommodation of approximately RM0.17 million. Due to lockdown and movement restrictions imposed by the Government to curb the spread of the COVID-19, we are prohibited from travelling. Thus, we are unable to participate and/or visit any ongoing third party trade fairs and exhibitions overseas.

12. FINANCIAL INFORMATION (CONT'D)**Comparison between FYE 31 December 2020 and FYE 31 December 2021**

Our selling and distribution expenses increased by approximately RM3.66 million or 112.96% from RM3.24 million for FYE 31 December 2020 to RM6.90 million for FYE 31 December 2021. The increase was mainly due to the following:

- (a) increase in freight, transportation, storage and fulfilment services costs of approximately RM2.03 million. Such increase was mainly due to storage and fulfilment services costs incurred for renting third-party e-commerce fulfilment centres located in the USA to support the sales transacted through Customer C Group's e-commerce platform in the USA, as well as the increase in freight and transportation charges resulting from increased orders from Customer C Group's e-commerce platform in the USA;
- (b) increase in staff costs of approximately RM1.10 million, mainly attributable to the increase in headcounts by 4 staffs to 26 staff as at 31 December 2021 (as at 31 December 2020: 22 staff) to support the expansion of our business;
- (c) increase in e-commerce platform charges of approximately RM0.22 million;
- (d) increase in insurance of approximately RM0.19 million, mainly attributable to higher insurance incurred for products liability for a warehouse located at Klang, which was purchased at the end of FYE 31 December 2020; and
- (e) increase in marketing expenses of approximately RM0.15 million, mainly due to higher advertisement costs incurred on third party e-commerce platforms, i.e. Customer C Group's e-commerce platform and Shopee, which were in tandem with the increase in sales from Customer C Group's e-commerce platform in the USA and Shopee.

The increase in selling and distribution expenses above was partially offset by the decrease in travelling and accommodation expenses of approximately RM0.05 million. Such decrease was mainly attributable to the lockdown and movement restrictions imposed by the Government to curb the spread of COVID-19, following which we were prohibited from travelling, and thus we are unable to participate and/or visit any ongoing third party trade fairs and exhibitions overseas.

Comparison between FYE 31 December 2021 and FYE 31 December 2022

Our selling and distribution expenses increased by approximately RM4.74 million or 68.70% from RM6.90 million for FYE 31 December 2021 to RM11.64 million for FYE 31 December 2022. The increase was mainly due to the following:

- (a) increase in freight, transportation, storage and fulfilment service costs of approximately RM2.48 million. The increase was mainly due to increase in storage costs incurred for overseas third-party e-commerce fulfilment centres to support the sales transacted through Customer C Group's e-commerce platform;
- (b) increase in staff costs of approximately RM0.77 million, mainly attributable to increase in staff commissions of approximately RM0.44 million and staff annual increments of approximately RM0.33 million;
- (c) increase in marketing expenses of approximately RM0.78 million, mainly due to higher advertisement costs incurred on third party e-commerce platforms, which were in tandem with the increase in sales from B2C sales segment; and
- (d) increase in upkeep of showroom expenses of approximately RM0.23 million, due to routine maintenance for our showroom.

12. FINANCIAL INFORMATION (CONT'D)**(vi) Administrative expenses**

The breakdown of our administrative expenses for the Financial Years Under Review is as follows:

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Staff costs	1,660	37.53	1,557	32.98	2,420	25.18	2,970	29.43
Legal and professional fees ⁽¹⁾	260	5.88	716	15.17	2,408	25.06	1,852	18.35
Directors' remuneration	626	14.15	548	11.61	1,701	17.70	1,871	18.54
Depreciation - rights-of use assets	391	8.84	360	7.62	389	4.05	622	6.16
- property, plant and equipment	221	5.00	284	6.02	397	4.13	531	5.26
Upkeep and maintenance	322	7.28	337	7.14	372	3.87	432	4.28
Stamp duty	63	1.42	47	1.00	345	3.59	144	1.43
Subscription fees	75	1.70	128	2.71	315	3.28	415	4.11
Bank charges	62	1.40	153	3.24	310	3.23	115	1.14
Utilities	121	2.73	106	2.24	245	2.55	255	2.53
Travelling expenses ⁽²⁾	353	7.98	256	5.42	189	1.97	391	3.87
Recruitment expenses	-	-	-	-	112	1.17	24	0.24
Commission ⁽³⁾	37	0.84	-	-	34	0.35	-	-
Others ⁽⁴⁾	232	5.25	229	4.85	372	3.87	470	4.66
Total	4,423	100.00	4,721	100.00	9,609	100.00	10,092	100.00

Notes:

- (1) Comprise mainly legal fees incurred for banking facilities, consultation fees mainly for internal process improvement, professional fees, related expenses incurred for the Listing, audit fees and secretarial fees.
- (2) Comprise petrol, tolls and parking fees.
- (3) Comprise real estate agent commission for renting of land.
- (4) Comprise mainly quit rent and assessment for our properties and insurance.

Comparison between FYE 31 December 2019 and FYE 31 December 2020

Our administrative expenses increased by approximately RM0.30 million or 6.79% from RM4.42 million for FYE 31 December 2019 to RM4.72 million for FYE 31 December 2020, primarily contributed by increase in legal and professional fees of RM0.46 million mainly arising from legal fees incurred for additional banking facilities of approximately RM0.23 million as well as expenses related to the Listing of approximately RM0.33 million.

12. FINANCIAL INFORMATION (CONT'D)**Comparison between FYE 31 December 2020 and FYE 31 December 2021**

Our administrative expenses further increased by approximately RM4.89 million or 103.60% from RM4.72 million for FYE 31 December 2020 to RM9.61 million for FYE 31 December 2021. The said increase was mainly attributable to the following:

- (a) increase in staff costs of approximately RM0.86 million mainly due to increase in headcount of 9 staffs to 25 staff as at 31 December 2021 (as at 31 December 2020: 16 staff), which was in line with our business expansion;
- (b) increase in legal and professional fees of approximately RM1.69 million from RM0.72 million in FYE 31 December 2020 to RM2.41 million for FYE 31 December 2021, mainly due to the following:
 - (aa) professional fees and related expenses incurred for the Listing which increased by approximately RM0.57 million or 172.73% from RM0.33 million for FYE 31 December 2020 to RM0.90 million for FYE 31 December 2021;
 - (bb) consultancy fees incurred for internal process improvement which increased by approximately RM0.62 million or 413.33% from RM0.15 million for FYE 31 December 2020 to RM0.77 million for FYE 31 December 2021;
 - (cc) secretarial fees which increased by approximately RM0.02 million or 200.00% from RM0.01 million for FYE 31 December 2020 to RM0.03 million for FYE 31 December 2021;
 - (dd) audit fees which increased by approximately RM0.19 million or 1,900.00% from RM0.01 million for FYE 31 December 2020 to RM0.20 million for FYE 31 December 2021;
 - (ee) tax fees of approximately RM0.01 million incurred for FYE 31 December 2021 (FYE 31 December 2020: Nil); and
 - (ff) professional fees incurred for the following:
 - (a) purchase and revaluation of properties of RM0.12 million for FYE 31 December 2021 (FYE 31 December 2020: Nil); and
 - (b) legal fees incurred for banking facilities which increased by approximately RM0.15 million or 65.22% from RM0.23 million for FYE 31 December 2020 to RM0.38 million for FYE 31 December 2021 mainly due to additional banking facilities for the purchase of properties.
- (c) increase in directors' remuneration of approximately RM1.15 million, mainly due to annual salary increment and bonuses;
- (d) increase in bank charges of approximately RM0.16 million mainly due to bank charges incurred in relation to third party e-commerce platform's payment gateway;

12. FINANCIAL INFORMATION (CONT'D)

- (e) increase in depreciation of approximately RM0.14 million, mainly due to additional depreciation from the purchase of property, plant and equipment during FYE 31 December 2021.
- (f) increase in stamp duty expenses of approximately RM0.30 million for new bank facilities agreements as well as sales and purchase agreements for the purchase of properties;
- (g) increase in subscription fees of approximately RM0.19 million, primarily due to the software subscription fee incurred to facilitate the linkage to third party e-commerce platform's system;
- (h) increase in utilities of approximately RM0.14 million, mainly due to additional utilities expenses arising from our Group's purchase of a warehouse located in Klang at the end of FYE 31 December 2020; and
- (i) increase in recruitment expenses by approximately RM0.11 million to recruit new employees via various platforms to cater to our business expansion.

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12. FINANCIAL INFORMATION (CONT'D)**Comparison between FYE 31 December 2021 and FYE 31 December 2022**

Our administrative expenses increased by approximately RM0.48 million or 4.99% from RM9.61 million for FYE 31 December 2021 to RM10.09 million for FYE 31 December 2022. The said increase was mainly attributable to the following:

- (a) increase in staff costs of approximately RM0.55 million, mainly due to increase in staff annual increments of approximately RM0.31 million, staff bonuses of approximately RM0.10 million and staff welfare of approximately RM0.12 million;
- (b) increase in travelling expenses of approximately RM0.20 million, mainly due to relaxation of movement restriction imposed by the Government in FYE 31 December 2022; and
- (c) increase in depreciation of right-of-use assets of approximately RM0.23 million due to the leasing of 1 new office for expansion of our head office and increase in the carrying amount of leasehold land arising from the revaluation of property performed during FYE 31 December 2022, both of which are located in Klang.

The abovementioned increases were partially offset by lower legal and professional fees of approximately RM0.56 million mainly due to decrease in professional fees and related expenses incurred for the Listing, which decreased by approximately RM0.51 million.

(vii) Other expenses

The breakdown of our other expenses for the Financial Years Under Review is as follows:

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Unrealised loss on foreign exchange	327	75.87	109	10.22	57	50.89	268	54.81
Bad debt written off ⁽¹⁾	100	23.21	*	*	-	-	-	-
Property, plant and equipment written off	2	0.46	101	9.46	9	8.04	5	1.02
Realised loss on foreign exchange	-	-	798	74.79	-	-	-	-
Fair value loss on property, plant and equipment	-	-	-	-	-	-	201	41.10
Others ⁽²⁾	2	0.46	59	5.53	46	41.07	15	3.07
Total	431	100.00	1,067	100.00	112	100.00	489	100.00

* *Negligible.*

Notes:

- (1) *Bad debt written off for FYE 31 December 2019 was in respect of a customer who has shut down its business operations, and thus the said amount was uncollectible.*
- (2) *Mainly comprises forfeited deposits to a third party manufacturer as well as for showroom rental.*

12. FINANCIAL INFORMATION (CONT'D)**Comparison between FYE 31 December 2019 and FYE 31 December 2020**

Our other expenses increased by approximately RM0.64 million or 148.84% from RM0.43 million for FYE 31 December 2019 to RM1.07 million for FYE 31 December 2020 mainly due to higher realised loss on foreign exchange of RM0.80 million incurred as a result of the weakening of USD against RM during the second half of FYE 31 December 2020. The said increase was partially offset by the decrease in unrealised loss on foreign exchange of approximately RM0.22 million due to the weakening of USD against RM at the end of FYE 31 December 2020.

Comparison between FYE 31 December 2020 and FYE 31 December 2021

Our other expenses decreased by approximately RM0.96 million or 89.72% from RM1.07 million for FYE 31 December 2020 to RM0.11 million for FYE 31 December 2021 mainly due to absence of realised loss on foreign exchange for FYE 31 December 2021 as a result of the strengthening of USD against RM during FYE 31 December 2021.

Comparison between FYE 31 December 2021 and FYE 31 December 2022

Our other expenses increased by approximately RM0.38 million or 345.45% from RM0.11 million for FYE 31 December 2021 to RM0.49 million for FYE 31 December 2022, primarily due to the following:

- (a) fair value loss arising from the revaluation of property, plant and equipment, i.e. our showroom and prototype assembly facility; and
- (b) higher unrealised loss on foreign exchange of RM0.21 million incurred as a result of the weakening of USD against RM at the end of FYE 31 December 2022.

(viii) Finance costs

The breakdown of our finance costs for the Financial Years Under Review is as follows:

	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Interests on:								
Term loans	1,368	67.79	1,175	62.37	1,655	70.79	1,883	55.22
Bankers' acceptance	112	5.55	67	3.56	232	9.92	697	20.44
Bill receivable charges	332	16.45	160	8.49	171	7.31	40	1.17
Revolving financing	118	5.85	262	13.91	168	7.19	675	19.79
Lease liabilities	52	2.58	123	6.53	84	3.59	62	1.82
Others ⁽¹⁾	36	1.78	97	5.14	28	1.20	53	1.56
Total	2,018	100.00	1,884	100.00	2,338	100.00	3,410	100.00

Note:

- (1) Comprise of interests on advances from holding company, interests on invoice financing as well as credit card charges.

12. FINANCIAL INFORMATION (CONT'D)**Comparison between FYE 31 December 2019 and FYE 31 December 2020**

Our finance costs decreased by approximately RM0.14 million or 6.93% from RM2.02 million for FYE 31 December 2019 to RM1.88 million for FYE 31 December 2020 mainly due to lower bill receivables charges of approximately RM0.17 million and the reduction in term loans interests of approximately RM0.19 million.

The decrease in finance costs above was partially offset by the increase in revolving financing interests of approximately RM0.14 million for the payment to third party manufacturers as well as higher lease liability interests of approximately RM0.07 million due to recognition of new tenancy for renting of showroom pursuant to MFRS 16 Leases.

Comparison between FYE 31 December 2020 and FYE 31 December 2021

Our finance costs increased by approximately RM0.46 million or 24.47% from RM1.88 million for FYE 31 December 2020 to RM2.34 million for FYE 31 December 2021. The increase was mainly attributable to higher term loan interests of approximately RM0.48 million due to the drawdowns of new term loans to purchase a freehold land and warehouse building at the end of FYE 31 December 2020, advances from holding company as well as higher working capital financing requirements.

Comparison between FYE 31 December 2021 and FYE 31 December 2022

Our finance costs increased by approximately RM1.07 million or 45.73% from RM2.34 million for FYE 31 December 2021 to RM3.41 million for FYE 31 December 2022. The increase was mainly attributable to the increase in revolving financing interests of approximately RM0.51 million and bankers' acceptance interests of approximately RM0.47 million for payments to third party manufacturers.

(ix) PBT, PBT margin, PAT and PAT margin

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
PBT (RM'000)	14,113	16,713	19,226	23,399
PBT margin (%)	12.66	13.60	10.43	12.06
PAT (RM'000)	10,895	12,107	14,387	16,624
PAT margin (%)	9.77	9.85	7.81	8.56

Comparison between FYE 31 December 2019 and FYE 31 December 2020

We recorded an increase in our PBT by approximately RM2.60 million or 18.43% from RM14.11 million for FYE 31 December 2019 to RM16.71 million for FYE 31 December 2020. Our PBT margin improved from 12.66% for FYE 31 December 2019 to 13.60% for FYE 31 December 2020. The increase in PBT and PBT margin was mainly due to higher GP and GP margin, further details of which are set out in Section 12.2.2(iii) above.

12. FINANCIAL INFORMATION (CONT'D)

Correspondingly, our PAT increased by approximately RM1.21 million or 11.10% from RM10.90 million for FYE 31 December 2019 to RM12.11 million for FYE 31 December 2020 whilst our PAT margin improved from 9.77% for FYE 31 December 2019 to 9.85% for FYE 31 December 2020. Our PAT growth rate was lower than our PBT growth rate mainly due to higher tax expenses for FYE 31 December 2020 resulting from certain expenses that were not deductible for tax reporting purposes, further details of which are set out in Section 12.2.2(x) below.

Comparison between FYE 31 December 2020 and FYE 31 December 2021

Our PBT further increased by approximately RM2.52 million or 15.08% from RM16.71 million for FYE 31 December 2020 to RM19.23 million for FYE 31 December 2021 whilst our PBT margin dropped from 13.60% for FYE 31 December 2020 to 10.43% for FYE 31 December 2021. The lower PBT and PBT margin was mainly attributable to the following:

- (a) lower GP margin for FYE 31 December 2021 as explained in Section 12.2.2(iii) above; and
- (b) higher selling and distribution expenses as well as administrative expenses as explained in Sections 12.2.2 (v) and 12.2.2 (vi) of this Prospectus respectively.

Correspondingly, our Group's PAT increased from RM12.11 million for FYE 31 December 2020 to RM14.39 million for FYE 31 December 2021 whilst our PAT margin decreased from 9.85% for FYE 31 December 2020 to 7.81% for FYE 31 December 2021.

Comparison between FYE 31 December 2021 and FYE 31 December 2022

Our PBT increased by approximately RM4.17 million or 21.68% from RM19.23 million for FYE 31 December 2021 to RM23.40 million for FYE 31 December 2022 whilst our PBT margin increased from 10.43% for FYE 31 December 2021 to 12.06% for FYE 31 December 2022. The increase in PBT and PBT margin was mainly due to higher GP and GP margin, further details of which are set out in Section 12.2.2(iii) above.

Correspondingly, our Group's PAT increased by approximately RM2.23 million or 15.50% from RM14.39 million for FYE 31 December 2021 to RM16.62 million for FYE 31 December 2022 whilst our PAT margin increased from 7.81% for FYE 31 December 2021 to 8.56% for FYE 31 December 2022. Our PAT margin growth of 0.75% was lower than our PBT margin growth of 1.63%, mainly due to higher tax expenses for FYE 31 December 2022 resulting from certain expenses that were not deductible for tax reporting purposes, further details of which are set out in Section 12.2.2(x) below.

12. FINANCIAL INFORMATION (CONT'D)**(x) Taxation**

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
Taxation (RM'000)	3,218	4,606	4,839	6,775
Effective tax rate (%)	⁽¹⁾ 22.80	27.56	25.17	28.95
Statutory tax rate (%)	24.00	24.00	24.00	24.00

Note:

- (1) *SH Furniture, one of our subsidiaries, had succeeded in penetrating export markets and hence qualified for tax exemption of statutory income equivalent to 50% of the value of its increased exports. SH Furniture achieved at least 50% increase in exports and thus qualified for tax exemption of statutory income equivalent to 30% of the value of increased exports for FYE 31 December 2016. The said incentive was fully utilised in FYE 31 December 2019.*

Comparison between FYE 31 December 2019 and FYE 31 December 2020

Our tax expenses increased by approximately RM1.39 million or 43.17% from RM3.22 million for FYE 31 December 2019 to RM4.61 million for FYE 31 December 2020 due to higher PBT recorded for FYE 31 December 2020.

Our effective tax rate for FYE 31 December 2020 of 27.56% was higher than the statutory tax rate mainly due to the following:

- (a) expenses incurred during FYE 31 December 2020 that were not deductible for tax reporting purposes of approximately RM2.34 million, mainly in respect of the following:
- (aa) term loans interest of approximately RM0.94 million;
 - (bb) inventories written off of approximately RM0.81 million;
 - (cc) legal fees incurred for new banking facilities of approximately RM0.23 million; and
 - (dd) the expenses incurred for the Listing of approximately RM0.33 million; and
- (b) under-provision of income tax expense of approximately RM0.15 million in respect of prior financial years recorded during FYE 31 December 2020.

Comparison between FYE 31 December 2020 and FYE 31 December 2021

Our tax expenses increased by approximately RM0.23 million or 4.99% from RM4.61 million for FYE 31 December 2020 to RM4.84 million for FYE 31 December 2021 due to higher PBT recorded for FYE 31 December 2021.

Our effective tax rate for FYE 31 December 2021 of 25.17% was higher than the statutory tax rate mainly due to expenses incurred during FYE 31 December 2021 that were not deductible for tax reporting purposes of approximately RM1.84 million. The non-deductible expenses mainly comprised legal and professional fee of approximately RM0.42 million as well as expenses incurred for the Listing of approximately RM0.90 million.

12. FINANCIAL INFORMATION (CONT'D)**Comparison between FYE 31 December 2021 and FYE 31 December 2022**

Our tax expenses increased by approximately RM1.94 million or 40.08% from RM4.84 million for FYE 31 December 2021 to RM6.78 million for FYE 31 December 2022 due to higher PBT recorded for FYE 31 December 2022.

Our effective tax rate for FYE 31 December 2022 of 28.95% was higher than the statutory tax rate mainly due to the following:

- (a) expenses incurred during FYE 31 December 2022 that were not deductible for tax reporting purposes of approximately RM2.76 million, mainly in respect of the following:
 - (aa) term loans interest of approximately RM0.62 million;
 - (bb) the expenses incurred for the Listing of approximately RM0.39 million;
 - (cc) subscription fees of approximately RM0.41 million incurred mainly for software subscription to facilitate the linkage to third party e-commerce platform's system; and
 - (dd) legal and professional fees of approximately RM0.59 million;
 - (ee) stamp duty incurred mainly for a new banking facility of approximately RM0.14 million;
 - (ff) quit rent and assessment of approximately RM0.11 million; and
 - (gg) fair value loss of approximately RM0.20 million arising from the revaluation of property, plant and equipment, i.e. our showroom and prototype assembly facility.
- (b) under-provision of income tax and deferred tax expense of approximately RM0.18 million and RM0.12 million respectively in respect of prior financial years recorded during FYE 31 December 2022.

12.3 LIQUIDITY AND CAPITAL RESOURCES

Our operations are funded by a combination of internal and external sources of funds. Our internal sources of funds comprise share capital and cash generated from our operating activities, while our external sources of funds are mainly credit extended by our suppliers and/or financial institutions. Our facilities from financial institutions comprise term loans, bankers' acceptance, revolving financing and trade financing.

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 inflows, future working capital requirements, future capital expenditure requirements, and the interest rates on borrowings. We carefully consider our cash position and ability to obtain further financing before making significant capital commitments.

Our Board confirms that we will have sufficient working capital to meet our present and foreseeable requirements for a period of 12 months from the date of this Prospectus, taking into consideration the following:

- (a) Our cash and bank balances and deposits with licensed banks of approximately RM30.75 million as at the LPD;

12. FINANCIAL INFORMATION (CONT'D)

- (b) Our expected future cash flows from operations;
- (c) Our total banking facilities as at the LPD up to a limit of approximately RM125.26 million, of which RM72.14 million has been utilised; and
- (d) Our pro forma gearing level of approximately 0.70 times, computed based on our pro forma statements of financial position of our Group as at 31 December 2022 after the Acquisitions and Public Issue (and utilisation of proceeds).

As at the LPD, we do not foresee any circumstances which may materially affect our liquidity. Our Group has not encountered any disputes with our debtors and our allowance for impairment loss in respect of our doubtful debts is low. This measure has proven to be effective while maintaining a cordial relationship with our customers.

12.4 REVIEW OF CASH FLOWS

The following table sets out the summary of the combined statements of cash flows for the Financial Years Under Review, which have been extracted from the Accountants' Report set out in Section 14 of this Prospectus and should be read in conjunction thereto:

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Net cash from operating activities	18,775	5,044	9,422	19,535
Net cash for investing activities	(1,368)	(14,560)	(12,977)	(14,650)
Net cash (for)/from financing activities	(6,060)	7,795	6,458	(3,594)
Net increase/(decrease) in cash and cash equivalents	11,347	(1,721)	2,903	1,291
Effects of foreign exchange translation	(87)	(145)	18	(428)
Cash and cash equivalents at the beginning of the financial year	3,622	14,882	13,016	15,937
Cash and cash equivalents at the end of the financial year	14,882	13,016	15,937	16,800

Save for certain banking restrictive covenants which our Subsidiaries are subject to in relation to the distribution of dividends, there is no other legal, financial or economic restriction on our subsidiaries' ability to transfer/receive funds to/from our Company in the form of cash dividends, loans or advances, subject to the availability of distributable reserves, loans or advances in compliance with any applicable financial covenant.

12. FINANCIAL INFORMATION (CONT'D)**(i) FYE 31 December 2019****(a) Net cash from operating activities**

For FYE 31 December 2019, our Group recorded net operating cash inflow of approximately RM18.78 million. We collected approximately RM112.93 million from the following:

- (i) Collections of approximately RM110.10 million from our customers;
- (ii) Tax refund of approximately RM2.42 million; and
- (iii) Interest income received of approximately RM0.41 million.

The above collections were offset by cash payments of approximately RM94.15 million in respect of the following:

- (i) Payments to our suppliers of approximately RM84.24 million;
- (ii) Payments for staff costs and other operating expenses of approximately RM7.75 million; and
- (iii) Tax payments to the Inland Revenue Board of approximately RM2.16 million.

(b) Net cash for investing activities

For FYE 31 December 2019, our Group recorded a net cash outflow of approximately RM1.37 million from our investing activities mainly due to the following:

- (i) Additional placement of fixed deposit pledged of approximately RM1.01 million to secure credit facilities granted to our Group;
- (ii) Purchase of property, plant and equipment of approximately RM0.60 million, which comprise mainly motor vehicles of RM0.36 million for directors' use and plant and machinery of RM0.13 million for our D&D activities;
- (iii) Investment in bond of approximately RM0.40 million; and
- (iv) Withdrawal of fixed deposits upon maturity with tenure of more than 3 months of approximately RM0.43 million.

(c) Net cash for financing activities

For FYE 31 December 2019, our Group recorded net cash outflow of approximately RM6.06 million from our financing activities, mainly due to the following cash outflows:

- (i) Repayments of bankers' acceptance and revolving financing of approximately RM11.42 million and RM4.62 million respectively;
- (ii) Payment of dividends to our shareholders of approximately RM2.13 million;
- (iii) Interests paid for bank borrowings and lease liabilities of approximately RM1.60 million and RM0.05 million respectively;
- (iv) Lease payments made for office, factory, showrooms, and motor vehicles of approximately RM0.60 million; and

12. FINANCIAL INFORMATION (CONT'D)

- (v) Repayments of term loans of approximately RM0.38 million.

The cash outflows above were partially offset by the following main cash inflows:

- (i) Drawdowns of bankers' acceptance and revolving financing of approximately RM12.19 million and RM1.42 million respectively for payments to our suppliers;
- (ii) Proceeds from the issuance of new ordinary shares of approximately RM1.09 million for our Group's business operations; and
- (iii) Repayment from a related party, Southampton Property of approximately RM0.04 million.

(ii) FYE 31 December 2020**(a) Net cash from operating activities**

For FYE 31 December 2020, our Group recorded a net operating cash inflow of approximately RM5.04 million. We collected approximately RM120.85 million from the following:

- (i) Collections of approximately RM119.35 million from our customers;
- (ii) Tax refund of approximately RM0.84 million; and
- (iii) Interest income received of approximately RM0.66 million.

The above collections were offset by cash payments of approximately RM115.81 million in respect of the following:

- (i) Payments to our suppliers of approximately RM99.88 million;
- (ii) Approximately RM0.07 million interest paid to holding company, SH Holdings;
- (iii) Payments for staff costs and other operating expenses of approximately RM9.68 million; and
- (iv) Tax payments to the Inland Revenue Board of approximately RM6.18 million.

(b) Net cash for investing activities

For FYE 31 December 2020, our Group recorded a net cash outflow of approximately RM14.56 million from our investing activities, mainly attributable to the cash payments of approximately RM13.96 million for the purchase of freehold land and building which costs RM20.83 million. The said property was used as a warehouse for our Group's B2C business operations.

12. FINANCIAL INFORMATION (CONT'D)**(c) Net cash from financing activities**

For FYE 31 December 2020, our Group recorded a net cash inflow of approximately RM7.80 million from our financing activities mainly due to the following cash inflows:

- (i) Drawdowns of bankers' acceptance, revolving financing and invoice financing of approximately RM7.49 million, RM19.93 million and RM0.93 million, respectively for payments to our suppliers;
- (ii) Drawdown of term loans amounting to RM17.62 million for the following:
 - (aa) Approximately RM10.96 million to finance the purchase of freehold land and warehouse building;
 - (bb) Approximately RM4.93 million as interest-bearing advances to holding company (which was fully repaid in October 2021); and
 - (cc) Approximately RM1.73 million for our Group's working capital purposes; and
- (iii) Repayment from a related party, Southampton Property of approximately RM0.02 million.

The cash inflows above were partially offset by cash outflows mainly from the following:

- (i) Repayments of revolving financing, bankers' acceptance and invoice financing of approximately RM10.97 million, RM7.99 million and RM0.21 million, respectively;
- (ii) Payment of dividends to our shareholders of approximately RM13.40 million;
- (iii) Advances to holding company, SH Holdings of approximately RM3.71 million, which was fully settled during FYE 31 December 2021;
- (iv) Interests paid for bank borrowings and lease liabilities of approximately RM0.84 million and RM0.12 million respectively;
- (v) Lease payments made for leasing of office, showrooms and motor vehicles of approximately RM0.73 million; and
- (vi) Repayment of term loans of approximately RM0.22 million.

(iii) FYE 31 December 2021**(a) Net cash from operating activities**

For FYE 31 December 2021, our Group recorded net operating cash inflow of approximately RM9.42 million. We collected approximately RM176.50 million from the following:

- (i) Collections of approximately RM176.23 million from our customers;
- (ii) Interest income from holding company, SH Holdings of approximately RM0.11 million;
- (iii) Interest income from a related party, Southampton Property of approximately RM0.13 million; and

12. FINANCIAL INFORMATION (CONT'D)

- (iv) Fixed and short-term deposits interest income received of approximately RM0.03 million.

The above collections were offset by cash payments of approximately RM167.08 million in respect of the following:

- (i) Payments to our suppliers of approximately RM139.08 million;
- (ii) Payments for staff costs and other operating expenses of approximately RM23.22 million; and
- (iii) Tax payments to the Inland Revenue Board of approximately RM4.78 million.

(b) Net cash for investing activities

For FYE 31 December 2021, our Group recorded a net cash outflow of approximately RM12.98 million for our investing activities which is mainly attributable to the following:

- (i) Payment for the balance of the purchase consideration of approximately RM6.87 million in respect of the acquisition of a warehouse previously used for our B2C business operations located at Klang towards the end of FYE 31 December 2020; and
- (ii) Additional placement of fixed deposits of approximately RM5.39 million to secure credit facilities granted to our Group.

The cash outflows above were partially offset by cash inflows from the withdrawal of a fixed deposit upon maturity with tenure of more than three (3) months of approximately RM1.03 million.

(c) Net cash from financing activities

For FYE 31 December 2021, our Group recorded a net cash inflow of approximately RM6.46 million from our financing activities mainly due to the following cash inflows:

- (i) Drawdown of bankers' acceptance, revolving financing, receivable financing and invoice financing of approximately RM16.76 million, RM11.07 million, RM24.27 million and RM1.10 million respectively, for payments to our suppliers;
- (ii) Drawdown of the balance term loan of approximately RM15.13 million for the purchase of freehold land and warehouse building;
- (iii) Repayment from holding company, SH Holdings of approximately RM3.71 million; and
- (iv) Repayment from a related party, Southampton Property of approximately RM0.02 million.

The cash inflows above were partially offset by cash outflows mainly from the following:

- (i) Repayment of bankers' acceptance, revolving financing, receivable financing and invoice financing of approximately RM9.71 million, RM7.87 million, RM22.67 million and RM1.44 million respectively;

12. FINANCIAL INFORMATION (CONT'D)

- (ii) Repayments of term loans of approximately RM14.81 million;
- (iii) Payment of dividends to our shareholders of approximately RM6.39 million;
- (iv) Interests paid for bank borrowings and lease liabilities of approximately RM2.00 million and RM0.08 million respectively; and
- (v) Lease payments made for leasing of office, showrooms and motor vehicles of approximately RM0.63 million.

(iv) FYE 31 December 2022**(a) Net cash from operating activities**

For FYE 31 December 2022, our Group recorded net operating cash inflow of approximately RM19.54 million. We collected approximately RM200.67 million from the following:

- (i) Collections of approximately RM200.49 million from our customers;
- (ii) Interest income from a related party, Southampton Property of approximately RM0.08 million; and
- (iii) Fixed and short-term deposits interest income received of approximately RM0.10 million.

The above collections were offset by cash payments of approximately RM181.13 million in respect of the following:

- (i) Payments to our suppliers of approximately RM148.19 million;
- (ii) Payments for staff costs and other operating expenses of approximately RM27.45 million; and
- (iii) Tax payments to the Inland Revenue Board of approximately RM5.49 million.

(b) Net cash for investing activities

For FYE 31 December 2022, our Group recorded net cash outflow of approximately RM14.65 million for our investing activities which was mainly attributable to the following:

- (i) Cash payments for the purchase of property, plant and equipment of approximately RM9.67 million for our business operations, which comprise mainly the following:
 - (aa) Purchase of showroom and prototype assembly facility located in Klang, Selangor of approximately RM7.04 million;
 - (bb) Plant and machinery of approximately RM0.69 million for our D&D activities;
 - (cc) Capital work-in-progress of approximately RM0.28 million mainly for the purchase of plant and machineries;
 - (dd) Tools and equipment of approximately RM0.32 million;
 - (ee) Renovation and signboard of approximately RM0.25 million;

12. FINANCIAL INFORMATION (CONT'D)

- (ff) Motor vehicles of approximately RM0.16 million; and
- (gg) Furniture and fittings as well as office and computer equipment of approximately RM0.93 million.
- (ii) Placement of fixed deposits pledged of approximately RM5.24 million; and
- (iii) Withdrawal of fixed deposits upon maturity with tenure more than 3 months of approximately RM0.20 million.

(c) Net cash for financing activities

For FYE 31 December 2022, our Group recorded net cash outflow of approximately RM3.59 million for our financing activities, mainly due to the following cash outflows of approximately RM114.59 million:

- (i) Repayment of bankers' acceptance of approximately RM62.82 million, revolving financing of approximately RM13.22 million, receivable financing of approximately RM24.79 million and invoice financing of approximately RM1.65 million;
- (ii) Repayments of term loans of approximately RM2.26 million;
- (iii) Payment of dividends to our shareholders of approximately RM5.90 million;
- (iv) Interests paid for bank borrowings and lease liabilities of approximately RM3.28 million and RM0.06 million respectively; and
- (v) Lease payments made for leasing of hostel, office, showrooms and motor vehicles of approximately RM0.61 million.

The above cash outflows were partially offset by the following cash inflows of approximately RM111.00 million:

- (i) Drawdown of bankers' acceptance of approximately RM72.29 million, receivable financing of approximately RM25.00 million, revolving financing of approximately RM3.19 million and invoice financing of approximately RM1.96 million for payments to our suppliers;
- (ii) Drawdown of term loan of approximately RM4.72 million mainly for the purchase of showrooms located in Klang, Selangor; and
- (iii) Repayment from a related party, Southampton Property of approximately RM3.84 million.

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12. FINANCIAL INFORMATION (CONT'D)
12.5 BORROWINGS

Our total outstanding borrowings as at 31 December 2022 stood at RM63.95 million, details of which are set out as follows. All our borrowings are interest-bearing and denominated in either RM or USD.

Type of borrowings	Purpose	Tenure of the facility	Interest rate % per annum	Audited as at 31 December 2022 RM'000	Repayable in 12 months RM'000	Repayable after 12 months RM'000
Term loan	Financing the purchase of properties and insurance coverage	10 years – 30 years	BFR – 0.75%; BFR; BLR; BFR – 1.80%; and BLR – 1.80%	37,883	982	36,901
	Working capital	5 years – 7 years	3.50% and BFR + 3.50%	1,146	298	848
Bankers' acceptances	Finance the trade purchases	120 days - 150 days	BDR+1.5%, COF+1.25 and COF+1.5%	⁽¹⁾ 18,265	18,265	-
Revolving financing	Finance the trade purchases	120 days	BFR - 0.75%	3,187	3,187	-
Receivable financing	Finance the trade receivables	90 days	COF+1.5%	⁽²⁾ 1,814	1,814	-
Invoice financing	Finance the trade purchases	120 days	BLR + 1.50%	695	695	-
Lease liabilities	To lease motor vehicle under hire purchase arrangement	5 years - 7 years	4.71% – 6.24%	203	81	122
	To lease office and hostel	2 years - 95 years	7.00%	759	320	439
Total borrowings				63,952	25,642	38,310

12. FINANCIAL INFORMATION (CONT'D)**Notes:**

- (1) *The figures include bankers' acceptances denominated in USD amounting to approximately USD0.69 million or equivalent to RM3.17 million, converted based on the exchange rate of USD1.00: RM4.5942.*
- (2) *The figures include receivables financing denominated in USD amounting to approximately USD0.41 million or equivalent to RM1.81 million, converted based on the exchange rate of USD1.00: RM4.4146.*

Our borrowings including term loan, bankers' acceptance, revolving financing, receivable financing and invoice financing are secured by one or a combination of the following:

- (a) Freehold land, showroom, prototype assembly facility and warehouse building of our Group;
- (b) Leasehold land of our Group held as right-of-use assets;
- (c) Corporate guarantee by holding company, SH Holdings;
- (d) Fixed deposit with a licensed bank held by SH Furniture and SK Furniture Industries;
- (e) Joint and several guarantees by directors of SH Furniture and SK Furniture Industries;
- (f) Guarantee cover for 80% of the facilities and interest thereon to SH Furniture from the Government under Special Relief Facility Scheme as administered by Syarikat Jaminan Pembiayaan Perniagaan Berhad;
- (g) Guarantee cover for 70% of the facilities to SK Furniture Industries from Syarikat Jaminan Pembiayaan Perniagaan Berhad under Working Capital Guarantee Scheme; and
- (h) Letter of Guarantee from Credit Guarantee Corporation Malaysia Berhad (CGC) under Portfolio Guarantee (PG) for RM504,000 for the facility for SK Furniture Industries.

Meanwhile, our hire purchase for motor vehicles are secured by assets purchased through the facilities.

As disclosed in Note (e) above, Mr. Tan Eu Tah and Mr. Teh Yee Luen, the directors and also major shareholders of our Company, have jointly and severally provided personal guarantees for the banking facilities extended by the financial institutions to our Group. The aggregate amount of facilities at the LPD was approximately RM68.61 million. In conjunction with the Listing, our Group has submitted a written request from the said financial institutions for the release or discharge the personal guarantees granted by Mr. Tan Eu Tah and Mr. Teh Yee Luen ("**Discharge**") and to substitute by a corporate guarantee by the Company or any other securities from our Group that are acceptable to the financial institutions ("**Substitution**"). On 17 October 2022, our Group has received conditional approvals from the respective financial institutions for the Discharge and the Substitution. The conditions being imposed include amongst others, the successful listing of our Company on the ACE Market.

12. FINANCIAL INFORMATION (CONT'D)

Our borrowings carry the following effective annual interest rates at the end of each reporting year under review:

	As at 31 December			
	Audited			
	2019	2020	2021	2022
	% per annum			
Bankers' acceptances	3.49 – 3.70	2.08 – 2.10	3.54 - 3.56	2.87 – 4.75
Revolving financing	6.10	5.45	5.45	6.10
Receivable financing	-	-	3.89	4.02 – 5.43
Term loans	7.22 – 7.65	3.20 – 8.90	3.50 - 8.90	3.50 – 9.65
Invoice financing	-	6.90	6.90	7.40 – 7.65
Lease liabilities	4.57 – 7.00	4.71 – 7.00	4.71 – 7.00	4.71 – 7.00

The gearing ratios for the Financial Years Under Review are as follows:

	As at 31 December			
	Audited			
	2019	2020	2021	2022
Gearing ratio (times) ⁽¹⁾	1.19	2.50	1.79	1.38
Net gearing ratio (times) ⁽²⁾	0.33	1.79	1.17	0.79

Notes:

- (1) Computed based on our total borrowings over total equity as at each financial year end.
- (2) Computed based on the net borrowings (i.e. total borrowings less deposits with licensed banks and cash and bank balances) over total equity as at each financial year end. The net gearing ratios are presented to demonstrate the net indebtedness and the financial position of our Group at each financial year end.

Our pro forma gearing ratio is expected to register approximately 1.40 times before the Public Issue, and approximately 0.70 times after the Public Issue (and utilisation of proceeds) due to the increase in shareholders' funds arising from the issuance of new Shares pursuant to the Public Issue.

As at the LPD, we do not have any borrowings which are non-interest bearing. We have not defaulted on payments of principal sums and/or interests in respect of any borrowings throughout the Financial Years Under Review and the subsequent financial year up to the LPD.

As at the LPD, our Group is not 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. We do not encounter any seasonality in our borrowings trend, and there are no restrictions on our committed borrowing facilities i.e., our bankers.

For the Financial Years Under Review, we have not experienced any clawback or reduction in the facilities limit granted to us by our lenders.

12. FINANCIAL INFORMATION (CONT'D)

12.6 TYPES OF FINANCIAL INSTRUMENTS USED, TREASURY POLICIES AND OBJECTIVES

From an accounting perspective, financial instruments may include fixed deposits with licensed banks, trade and other receivables, trade and other payables, and borrowings as shown on our combined statements of financial position. These financial instruments are used in our ordinary course of business.

As at the LPD, save as disclosed in Section 12.5 above, we do not have or utilise any other financial instruments. We finance our operations mainly through cash generated from our operations, credit extended by our suppliers and external sources of funds which mainly comprise borrowings. The principal usages of these borrowings are for working capital, to finance the purchase of property, plant and equipment as well as leasing of office and hostels.

Save for our finance lease liabilities which carry fixed interest rates, all of our other borrowings bear variable interest rates which are based on the banks' interest rates (i.e. BLR, BDR, COF and BFR), including any additional margin added to or deducted from the prevailing rates depending on the different types of bank facilities as agreed upon with our respective bankers.

12.7 MATERIAL CAPITAL COMMITMENTS

As at the LPD, we do not have any material capital commitments for capital expenditure which upon becoming enforceable, may have a material effect on our Group's financial position.

12.8 MATERIAL LITIGATION AND CONTINGENT LIABILITIES

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

As at the LPD, there are no contingent liabilities incurred by our Group which upon becoming enforceable, may have a material effect on our Group's financial position.

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12. FINANCIAL INFORMATION (CONT'D)**12.9 KEY FINANCIAL RATIOS**

The key financial ratios of our Group for the Financial Years Under Review are as follows:

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
Trade receivables turnover (days) ⁽¹⁾	32	36	35	35
Trade payables turnover (days) ⁽²⁾	35	27	18	24
Inventory turnover (days) ⁽³⁾	16	19	19	45
Current ratio (times) ⁽⁴⁾	2.08	1.62	1.71	1.75
Gearing ratio (times) ⁽⁵⁾	1.19	2.50	1.79	1.38
Net gearing ratio (times) ⁽⁶⁾	0.33	1.79	1.17	0.79

Notes:

- (1) Computed based on average trade receivables over revenue for the financial year multiplied by 365 days for each financial year end.
- (2) Computed based on average trade payables over purchases for the financial year multiplied by 365 days for each financial year end.
- (3) Computed based on average inventory over cost of sales for the financial year multiplied by 365 days for each financial year end.
- (4) Computed based on current assets over current liabilities as at each financial year end.
- (5) Computed based on our total borrowings over total equity as at each financial year end.
- (6) Computed based on the net borrowings (i.e: total borrowings less deposits with licensed banks and cash and bank balances) over total equity as at each financial year end. The net gearing ratios are presented to demonstrate the net indebtedness and the financial position of our Group at each financial year end.

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12. FINANCIAL INFORMATION (CONT'D)**12.9.1 Trade receivables turnover**

Our trade receivables' turnover period (in days) for the Financial Years Under Review is stated as below:

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Opening trade receivables	8,956	10,354	13,730	21,792
Closing trade receivables	10,354	13,730	21,792	15,404
Average trade receivables	9,655	12,042	17,761	18,598
Revenue	111,482	122,891	184,292	194,093
Trade receivables turnover period (days)	32	36	35	35

The normal credit period granted by our Group to our customers are cash terms and up to 120 days from the date of invoice. Our credit terms to customers are assessed and approved on a case-by-case basis after considering various factors such as customers relationship, customers payment history, creditworthiness as well as the quantum of the amount outstanding.

Our Group uses the simplified approach to estimate a lifetime expected credit loss allowance for all trade receivables. Our Group develops the expected loss rates based on the payment profiles of past sales and the corresponding historical credit losses, and adjusts for qualitative and quantitative reasonable and supportable forward-looking information. If the expectation is different from the estimation, such difference will impact the carrying value of trade receivables.

Our Group deems any receivables having financial difficulty or with significant balances outstanding for more than 90 days as credit impaired and assesses for their risk of loss individually.

During FYE 31 December 2020, our Group has changed its risk management practices in response to the COVID-19 pandemic. The expected loss rates are based on the payment profiles of sales over a period of 1 year from the measurement date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle their debts.

Our average trade receivables turnover periods for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 were 32 days, 36 days, 35 days and 35 days respectively, all of which are within our trade terms period.

During the Financial Years Under Review, our trade receivables are collected generally within the credit terms, and therefore, there is minimal exposure to credit risk.

12. FINANCIAL INFORMATION (CONT'D)

The ageing analysis of our trade receivables as at 31 December 2022 is as follows:

	Trade receivables as at 31 December 2022		Amount collected from 1 January 2023 up to the LPD	Balance of trade receivables which have yet to be collected as at the LPD
	RM'000	Percentage of receivables (%)	RM'000	RM'000
	(a)	(a)/total of (a)	(b)	(c) = (a)-(b)
Within credit period	11,569	75.10	11,569	-
Past due:				
• 1 to 30 days	3,823	24.82	3,823	-
• 31 to 60 days	12	0.08	12	-
• 61 to 90 days	-	-	-	-
• More than 90 days	-	-	-	-
	3,835	24.90	3,835	-
Total	15,404	100.00	15,404	-

As at the LPD, our outstanding trade receivables as at 31 December 2022 have been fully collected.

Our Group has not experienced any instances of significant bad debts for the Financial Years Under Review. Our Group will assess the collectability of trade receivables on an individual customer basis, and impairment will be made for those where recoverability is uncertain based on our past dealings with customers. We will also assess the adequacy of impairment loss allowance on overall trade receivables balance at every reporting period based on historical collection experience. For the Financial Year Under Review and up to the LPD, our Group has not encountered any disputes with our trade receivables. Our net impairment loss on trade receivables for the Financial Years Under Review are as follows:

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Impairment losses on trade receivables	-	45	12	-
Reversal of impairment losses on trade receivables	-	-	11	11
Bad debt written off	(1)100	*	-	-

* *Negligible.*

Note:

(1) *The bad debt written off for FYE 31 December 2019 was due to 1 of our customers having shut down their business operations.*

12. FINANCIAL INFORMATION (CONT'D)**12.9.2 Trade payables turnover**

Our trade payables' turnover period (in days) for the Financial Years Under Review is as follows:

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Opening trade payables	7,260	9,127	4,817	9,600
Closing trade payables	9,127	4,817	9,600	9,772
Average trade payables	8,194	6,972	7,209	9,686
Total purchases	86,052	94,798	144,005	148,360
 Average trade payables turnover period (days)	 35	 27	 18	 24

The normal credit terms granted by our trade suppliers to our Group are cash term and up to 60 days. To maintain good relationship with our suppliers, we will pay our suppliers as payments fall due.

Our trade payables turnover periods for the FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 were 35 days, 27 days, 18 days and 24 days respectively, all of which are within the normal credit terms granted by our suppliers.

Our trade payables turnover period decreased from 35 days for FYE 31 December 2019 to 18 days for FYE 31 December 2021. Our Group made prompt payment to expedite the production of home furniture to meet customers' demand.

Our trade payables turnover period increased from 18 days for FYE 31 December 2021 to 24 days for FYE 31 December 2022 mainly due to higher purchases made during FYE 31 December 2022 which is in tandem with the growth in our B2C sales and our Group maintaining a higher inventory level to fulfil the growth in our B2C sales.

The ageing analysis of our trade payables as at 31 December 2022 is as follows:

	Trade payables as at 31 December 2022		Amount paid from 1 January 2023 up to LPD	Balance of trade payables which have yet to be paid as at LPD
	RM'000	Percentage of trade payables (%)	RM'000	RM'000
	(a)	(a)/total of (a)	(b)	(c) = (a)-(b)
Within credit period	9,772	100.00	9,772	-
Exceeding credit period:				
• 1 to 30 days	-	-	-	-
• 31 to 60 days	-	-	-	-
• More than 60 days	-	-	-	-
Total	9,772	100.00	9,772	-

As at the LPD, we have paid all our trade payables outstanding as at 31 December 2022. There are also no disputes in respect of trade payables, and no legal action has been initiated by our suppliers to demand for payment.

12. FINANCIAL INFORMATION (CONT'D)**12.9.3 Inventories**

Our inventory turnover period (in days) for the Financial Years Under Review are as below:

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Opening inventories	4,250	3,709	6,217	9,271
Closing inventories	3,709	6,217	9,271	26,889
Average inventories	3,980	4,963	7,744	18,080
Cost of sales	89,643	96,425	147,492	147,733
 Average inventory turnover period (days)	 16	 19	 19	 45

As we outsource manufacturing works to third party, our inventory for the financial years under review mainly comprises finished goods in our local warehouse in Bandar Bukit Raja, Klang, Selangor and overseas third party fulfilment centres.

From 30 March 2023, our local warehouse in Bandar Bukit Raja, Klang, Selangor is not in use and is no longer used to store our inventories. Our inventories at the warehouse have been located to our Designated Third Party Manufacturer's Premises. Please refer to Section 6.8.1 of this Prospectus for further details on the relocation of our inventories to the Designated Third Party Manufacturer's Premises.

The breakdown of the closing inventories for the Financial Years Under Review is as follows:

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Furniture raw materials	2,414	1,569	672	194
Finished goods				
- Overseas	-	3,515	6,311	22,115
- Malaysia	1,295	1,133	2,288	4,580
	1,295	4,648	8,599	26,695
 Total	 3,709	 6,217	 9,271	 26,889

During the Financial Years Under Review, the inventories for furniture raw materials decreased due to the reduction in purchasing and provision of furniture raw materials to our third party manufacturers. This was due to our intention to streamline our business operations to focus on design, development and sale of home furniture whereby our third party manufacturers are required to purchase all raw materials required for manufacturing by themselves.

Our inventories for finished goods increased during the Financial Years Under Review, mainly due to the following reasons:

- (a) our Group expanding the geographical coverage of our B2C sales to the USA in 2020 and further expanding our B2C sales in the USA, Canada and the UK through various third party e-commerce platforms in 2022;
- (b) the increase in the number of offerings sold via third party e-commerce platforms; and

12. FINANCIAL INFORMATION (CONT'D)

- (c) in particular, our inventory of overseas finished goods increased from RM3.52 million as at 31 December 2020 to RM22.12 million as at 31 December 2022 due to more overseas e-commerce fulfilment centres were used in the USA, Canada and the UK to fulfil the anticipation of our B2C sales growth. This is in line with our B2C expansion to wider geographical locations whereby the number of e-commerce fulfilment centres used by us increased from 10 as at 31 December 2021 to 49 as at 31 December 2022.

Our inventory turnover days for the FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 were 16 days, 19 days, 19 days and 45 days, respectively. As we continue to grow our sales in the B2C segment, we have increased our inventory levels to ensure we have sufficient and readily-available inventory in our local warehouse and overseas third party e-commerce fulfilment centres to fulfil our B2C orders.

Our inventory turnover days increased from 16 days for FYE 31 December 2019 to 19 days for FYE 31 December 2021. The increase was mainly attributable to our Group maintaining a higher inventory level to fulfil the growth in our B2C sales.

Our inventory turnover days increased from 19 days as at 31 December 2021 to 45 days as at 31 December 2022. The increase was mainly attributable to our Group maintaining a higher inventory level to fulfil the growth in our B2C sales.

Reviews are made periodically by management on damaged, obsolete and slow-moving inventories. These reviews require judgement and estimates. Possible changes in these estimates could result in revisions to the valuation of inventories.

We conduct a monthly management meeting to review stockholding and inventory ageing analysis. Approval is needed from the authorised management level to replenish our inventories and write off slow-moving inventories, if any.

The inventory written down, inventory written off and reversal of inventory previously written down for the Financial Years Under Review are as tabulated as below:

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Inventories written down ⁽¹⁾	57	-	-	138
Inventories written off ⁽²⁾	-	807	-	-
Reversal of inventories previously written down ⁽³⁾	-	(192)	(175)	-
	57	615	(175)	138

Notes:

- (1) Inventories written down was derived from our unsold furniture inventory values written down to their respective net realisable values.
- (2) Inventories written off was derived from slow-moving unused raw materials written off.
- (3) This amount was derived from our unsold furniture with carrying amounts previously written down to net realisable values and subsequently sold during FYEs 31 December 2020 and 31 December 2021 at higher selling prices.

Save for the inventories written down of approximately RM0.06 million and RM0.14 million for FYE 31 December 2019 and FYE 31 December 2022, respectively, we are of the opinion that there is no other material slow moving/obsolete inventories as at the LPD.

12. FINANCIAL INFORMATION (CONT'D)**12.9.4 Current ratio**

Our current ratio for the Financial Years Under Review is as follows:

	As at 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Current assets	41,884	51,185	67,796	76,212
Current liabilities	20,152	31,538	39,568	43,597
Net current assets	21,732	19,647	28,228	32,615
Current ratio (times)	2.08	1.62	1.71	1.75

Our current ratio ranges from 1.62 times to 2.08 times for the Financial Years Under Review. This indicates that our Group is able to meet our current obligations as our current assets, such as inventories and trade receivables, which can be readily converted into cash, together with our fixed deposits and bank balances is sufficient to meet our current liabilities.

As at 31 December 2020, our current ratio decreased to 1.62 times (as at 31 December 2019: 2.08 times) mainly due to higher bank borrowings of approximately RM10.56 million as compared with FYE 31 December 2019 due to the increase in revolving financing facilities utilised of RM8.97 million as well as increase in current portion of term loans drawdown of RM1.37 million during FYE 31 December 2020. The said increase in bank borrowings was partially offset by the increase in cash and bank balances which is primarily attributable to increase in internally generated funds from our business operations.

As at 31 December 2021, our current ratio increased to 1.71 times mainly due to the following:

- (i) additional fixed deposits placed with licensed banks of approximately RM4.01 million;
- (ii) improved bank balances of approximately RM3.27 million which was attributable to increase in internally generated funds from our business operations;
- (iii) increase in trade receivables of approximately RM8.06 million mainly due to higher sales from our B2B customers toward the end of FYE 31 December 2021;
- (iv) increase in inventories of approximately RM3.05 million mainly due to our Group maintaining a higher inventory level to fuel the growth of our B2C sales; and
- (v) higher deposits paid to our third party manufacturers of approximately RM3.39 million, which is in tandem with the increase in revenue.

The increase was partially offset by the decrease in other receivables, mainly due to repayment from holding company of approximately RM4.93 million during FYE 31 December 2021.

As at 31 December 2022, our current ratio increased to 1.75 times mainly due to the following:

- (i) increase in inventories of approximately RM17.62 million mainly due to our Group maintaining a higher inventory level to cater the growth of our B2C sales; and
- (ii) placement of additional fixed deposits placed with licensed banks of approximately RM7.04 million.

12. FINANCIAL INFORMATION (CONT'D)

The abovementioned were partially offset by the following:

- (i) decrease in trade receivables of approximately RM6.39 million due to close monitoring of collections from our customers;
- (ii) decrease in other receivables, deposits and prepayment of approximately RM8.92 million mainly due to repayment from a related party, Southampton Property and lower deposits paid to suppliers mainly due to less deposits required by our existing suppliers;
- (iii) decrease in cash and bank balances of approximately RM1.14 million mainly due to placement of additional fixed deposits placed with licensed banks as abovementioned;
- (iv) increase in other payables and accruals of approximately RM2.92 million mainly due the following:
 - (aa) increase in other payables mainly due to freight and storage costs incurred for overseas third party e-commerce fulfilment centres which is in line with our overseas B2C sales growth during FYE 31 December 2022; and
 - (bb) increase in accrued purchases mainly due to higher accrued freight charges for shipment to third party e-commerce fulfilment centres located in the USA to support the sales transacted through Customer C Group's e-commerce platform in the USA; and
- (v) increase in current tax liabilities of approximately RM1.30 million mainly due to our Group having recorded higher PBT for the FYE 31 December 2022.

12.9.5 Gearing ratio

Our gearing ratio for the Financial Years Under Review is as follows:

	As at 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Total bank borrowings and lease liabilities	22,076	50,391	61,610	63,952
Less:				
Deposits with licensed banks	(9,577)	(1,656)	(5,668)	(12,704)
Cash and bank balances	(6,312)	(12,591)	(15,861)	(14,723)
Net debts	<u>6,187</u>	<u>36,144</u>	<u>40,081</u>	<u>36,525</u>
Total equity	18,485	20,192	34,349	46,350
Gearing ratio (times)	<u>1.19</u>	<u>2.50</u>	<u>1.79</u>	<u>1.38</u>
Net gearing ratio (times)	<u>0.33</u>	<u>1.79</u>	<u>1.17</u>	<u>0.79</u>

Our gearing ratio ranged from 1.19 times to 2.50 times for the Financial Years Under Review.

Our gearing ratio increased from 1.19 times as at 31 December 2019 to 2.50 times as at 31 December 2020 as a result of the increase in our bank borrowings of approximately RM28.32 million. The increase in bank borrowings is mainly due to a drawdown of an additional term loan facility of RM17.62 million for the purchase of a freehold land and warehouse in December 2020 which is used to expand our Group's capacity for B2C sales through e-commerce platforms.

12. FINANCIAL INFORMATION (CONT'D)

Our Group's gearing ratio decrease from 2.50 times as at 31 December 2020 to 1.79 times as at 31 December 2021, mainly due to our Group's increased retained earnings arising from net profits recorded during FYE 31 December 2021.

Our gearing ratio decreased from 1.79 times as at 31 December 2021 to 1.38 times as at 31 December 2022, mainly due to our Group's increased retained earnings arising from net profits recorded during FYE 31 December 2022 as well as the recognition of surplus arising from the revaluation of our freehold land, warehouse building and leasehold land during FYE 31 December 2022.

Our net gearing ratio ranged from 0.33 times to 1.79 times for the Financial Years Under Review.

12.10 IMPACT OF GOVERNMENT, ECONOMIC, FISCAL OR MONETARY POLICIES

During the Financial Years Under Review, we primarily exported our home furniture to the UK, United Arab Emirates and the USA. Our sales from exports contributed significantly to our total revenue which amounted to 98.21%, 96.52%, 94.37% and 94.66% of our revenue for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 respectively.

As we continue to expand our business and export markets, our business operations are expected to be increasingly affected by political, economic, legal and social conditions in Malaysia and the countries to which we export our home furniture to.

Risks that we are exposed to include, amongst others, changes in government or regulatory policies such as tax rates and interest rates, unstable economic conditions, changes in political leadership and wars.

For FYE 31 December 2019, there have not been any political, economic, legal or social conditions that had a material negative impact on our business operations and financial performance. For FYE 31 December 2020 and FYE 31 December 2021, our Group was affected by the COVID-19 pandemic, which has temporarily affected the economic and social conditions in Malaysia and countries where we export our products to and the countries where our third party manufacturers operate. Please refer to Section 7.17 of this Prospectus for further details on the impact to our Group arising from the COVID-19 pandemic.

Save as disclosed above, there were no government, economic, fiscal or monetary policies or factors which had materially affected our operations during the Financial Years Under Review. However, there is no assurance that our financial performance will not be adversely affected by the impact of further changes in government, economic, fiscal or monetary policies or factors moving forward. Therefore, any unfavourable changes in political, economic, legal and social conditions in Malaysia and the countries we export to and the countries where our third party manufacturers operate may cause significant disruptions to our business operations and/or impact our financial performance.

12.11 IMPACT OF INFLATION

During the Financial Years Under Review, our financial performance was not materially affected by the impact of inflation. However, there is no assurance that our financial performance will not be adversely affected by the impact of inflation moving forward. Any significant increase in costs of sales in the future may adversely affect our operations and performance in the event where we are unable to pass on higher costs to our customers through an increase in selling prices.

12. FINANCIAL INFORMATION (CONT'D)**12.12 IMPACT OF FOREIGN EXCHANGE RATES, INTEREST RATES AND COMMODITY PRICES ON OUR GROUP'S OPERATIONS****12.12.1 Impact of foreign exchange rates**

Our export sales were the largest contributor to our Group's revenue at 98.21%, 96.52%, 94.37% and 94.66% for FYEs 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022, respectively. We exported our home furniture to the UK, United Arab Emirates, the USA, Ireland, Australia, Canada, Indonesia, India, Thailand, Singapore and Lebanon. The revenue generated from our export sales are denominated in USD, GBP and CAD and hence, we are exposed to foreign exchange fluctuation risks for these revenue. For sales to local customers in Malaysia, the revenue generated are denominated in RM. The breakdown of our revenue by currencies for the Financial Years Under Review is as follows:

Currency	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
RM	1,990	1.79	4,281	3.48	10,381	5.63	10,355	5.34
USD	109,492	98.21	118,610	96.52	173,911	94.37	183,550	94.56
GBP	-	-	-	-	-	-	176	0.09
CAD	-	-	-	-	-	-	12	0.01
Total	111,482	100.00	122,891	100.00	184,292	100.00	194,093	100.00

Our purchases are also exposed to foreign exchange fluctuation risks arising from engaging overseas third party manufacturers who are mainly in China, Indonesia and Vietnam for the supply of finished goods (i.e. home furniture manufactured by third party manufacturers), whereby the purchase of finished goods from overseas third party manufacturers are denominated in USD and RMB. Additionally, some purchase of finished goods from local third party manufacturers in Malaysia are also denominated in USD as requested by the manufacturers. During the Financial Years Under Review, we also purchased some supplies from overseas suppliers such as furniture raw materials to be provided to our third party manufacturers for the manufacturing of our home furniture, raw materials (i.e. for the assembly of our prototypes) and home furnishings, whereby these purchases were denominated in USD and RMB. Additionally, during the Financial Years Under Review, we also purchased some furniture raw materials, raw materials for the assembly of our prototypes and/or home furnishings from local suppliers in which these purchases were denominated in RM.

The breakdown of our purchases by currency for the Financial Years Under Review is as follows:

Currency	FYE 31 December							
	Audited							
	2019		2020		2021		2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
RM	48,101	55.90	60,459	63.78	84,559	58.72	89,337	60.22
USD	36,630	42.57	32,146	33.91	58,779	40.82	59,010	39.77
RMB	1,321	1.53	2,193	2.31	667	0.46	13	0.01
Total	86,052	100.00	94,798	100.00	144,005	100.00	148,360	100.00

12. FINANCIAL INFORMATION (CONT'D)

For the Financial Years Under Review, our transactions involving foreign exchange were predominantly denominated in USD. In circumstances where the USD significantly appreciates against the RM, we will record higher revenue and higher purchases in RM after conversion. Conversely, in circumstances where the USD significantly depreciates against the RM, we will record lower revenue and lower purchases in RM after conversion. In the event that we are unable to pass the increase in cost to our customers in a timely manner, our financial performance may be affected. While we also have transactions denominated in GBP and CAD for our export sales and RMB for our purchases, fluctuations in exchange rates between GBP/CAD/RMB and RM are not expected to have material impact to our revenue and purchases as the revenue denominated in GBP and CAD and purchases denominated in RMB are comparatively low as shown above.

Our Group's purchases denominated in RMB declined by approximately RM0.66 million or 98.51% to RM0.01 million for FYE 31 December 2022 (FYE 31 December 2021: RM0.67 million), mainly due to our Group purchasing less raw material from China during FYE 31 December 2022. We reduced the purchasing of furniture raw material and required our third party manufacturer to purchase the raw materials by themselves.

For the Financial Years Under Review, our gains and losses from the foreign exchange fluctuations are as follows:

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Realised gain/(loss) on foreign exchange	1,341	(798)	388	1,049
Unrealised loss on foreign exchange	(327)	(109)	(57)	(268)
Net gain/(loss) on foreign exchange	1,014	(907)	331	781

We currently do not have a formal policy with respect to our foreign exchange transactions and we do not hedge our exposure to fluctuations in foreign currency exchange rates. However, to a certain extent, we enter into foreign exchange forward contracts with banking institutions to sell the USD received from our customers. For the Financial Years Under Review, the derivative gains or losses arising from foreign exchange forward contracts were not material and were offset against realised gains or losses on foreign exchange account. Our Group also holds cash and cash equivalents denominated in USD for working capital purposes.

As at the LPD, we have not entered into any forward foreign exchange contracts. As such, we are subject to foreign exchange fluctuation risk for the purchase of our supplies and revenue from our overseas sales. Please refer to Section 9.1.1 of this Prospectus for further details on our business and operation risks relating to foreign exchange rate fluctuations.

12. FINANCIAL INFORMATION (CONT'D)**12.12.2 Impact of interest rates**

Interest coverage ratio measures the number of times a company is able to meet its interest payment obligations with its EBIT. Our interest coverage ratio for the Financial Years Under Review is as follows:

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
Interest coverage ratio (times) ⁽¹⁾	7.79	9.52	9.11	7.81

Note:

(1) Computed based on EBIT over finance costs for the Financial Years Under Review.

Our interest coverage ratio ranged from 7.79 to 9.52 times for the Financial Years Under Review, indicating that our Group has been able to generate sufficient profits from operations to meet our interest servicing obligations.

Our financial results for the Financial Years Under Review were not materially affected by fluctuations in interest rates. However, any significant increase in interest rates would raise the cost of our borrowings and our finance costs, which in turn may have an adverse impact on the financial performance of our Group.

12.12.3 Impact of commodity prices

During FYE 31 December 2019, FYE 31 December 2020, and FYE 31 December 2022, the fluctuations in commodities prices did not have any material negative impact on our business operations and financial performance.

Save for FYE 31 December 2021, the global supply chain disruption had resulted in the increase in the commodities prices as well as shipping costs, and thus resulting the increase in our third party manufacturing costs and our GP margin decreased.

There is no assurance that our financial performance will not be adversely affected by the impact of commodity prices moving forward. Any significant increase in costs of sales in the future may adversely affect our operations and performance in the event where we are unable to pass on higher costs to our customers through an increase in selling prices.

12.13 ORDER BOOK

We do not have any long-term contracts with our customers as our sales are made based on purchase orders from our customers on an ongoing basis. Due to the nature of our business, we do not maintain an order book. We generate our revenue as and when we deliver our home furniture based on purchase orders received. Our unfulfilled purchase orders as at 31 December 2022 is approximately RM26.46 million. As at the LPD, the balance of these unfulfilled purchase orders is approximately RM2.03 million after taking into consideration cancelled purchase orders and fulfilled purchase orders which are expected to be recognised in FYE 31 December 2023.

12. FINANCIAL INFORMATION (CONT'D)

12.14 TREND INFORMATION

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

- (i) Known trends, demands, commitments, events or uncertainties that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's financial performance, position and operations, save as disclosed in Section 12.2, Section 7, Section 8 and Section 9 of this Prospectus;
- (ii) Material commitments for capital expenditure, as set out in Sections 12.7 of this Prospectus;
- (iii) Unusual, infrequent events or transactions or any significant economic changes that have materially affected the financial performance, position and operations of our Group, save as discussed in Section 9 and Section 12.2 of this Prospectus;
- (iv) Known trends, demands, commitments, events or uncertainties that had resulted in a substantial increase in our Group's revenue and/or profit as disclosed in this Section 12.2 of this Prospectus, business and IMR Report, as set out in Section 7 and Section 8, as well as business strategies and prospects as set out in Section 7.19 of this Prospectus;
- (v) Known trends, demands, commitments, events or uncertainties that are reasonably likely to make our Group's historical financial statements not indicative of the future financial performance and position, save as disclosed in this section and Section 9 of this Prospectus; and
- (vi) 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 liquidity and capital resources, save as disclosed in this section, Section 7 and Section 9 of this Prospectus.

However, our Board foresees certain risk factors as set out in Section 9 that may affect our future financial condition and results of operations.

Nevertheless, our Board is cautiously optimistic about the future prospects of our Group after taking into consideration our Group's competitive strengths as set out in Section 7.3 of this Prospectus, and the outlook of the furniture industry in Malaysia as set out in the IMR Report in Section 8 of this Prospectus and our commitment to implement the business strategies as set out in Section 7.19 of this Prospectus, as well as external factors including global economics conditions and fluctuations in foreign currencies, especially in countries where our Group has operations in.

12. FINANCIAL INFORMATION (CONT'D)

12.15 DIVIDEND POLICY

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

As we are a holding company, our ability to declare and pay dividends or make other distributions to our shareholders are dependent upon the dividends we receive from our Subsidiaries, present or future. The payment of dividends by our Subsidiaries is dependent on various factors, including but not limited to their distributable profits, financial performance, cash flow requirements for operations and capital expenditures, as well as other factors that their respective boards of directors deem relevant. Save for certain banking restrictive covenants which our Subsidiaries are subject to, there is no other dividend restriction imposed on our Subsidiaries and our Company as at the LPD.

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

- (i) the level of cash and level of indebtedness;
- (ii) required and expected interest expense, cash flows, profits, return on equity and retained earnings;
- (iii) our expected results of current and future level of operations;
- (iv) our projected levels of capital expenditure and other investment plans; and
- (v) the prior consent from our banking institutions, if any.

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

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

- (i) our Company is, or would after the payment be unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than its liabilities.

12. FINANCIAL INFORMATION (CONT'D)

For the Financial Years Under Review, our Subsidiaries had declared the following dividends to their respective shareholders:

	FYE 31 December			
	Audited			
	2019	2020	2021	2022
	RM'000	RM'000	RM'000	RM'000
Dividend declared	5,131	10,400	6,388	5,900
Dividends paid	2,131	13,400	6,388	5,900

Subsequent to FYE 31 December 2022 and up to the LPD, our Group had declared and paid an interim dividend amounting to RM0.70 million for the FYE 31 December 2022 on 16 January 2023. Subsequent to the LPD and prior to the date of our Listing, our Group does not intend to declare any further dividends.

The dividends declared above were funded by internal funds sourced from the cash and bank balances of the respective Subsidiaries. The dividends will not affect the execution and implementation of our future plans or strategies. We also believe that we have sufficient funding from our internally generated funds and bank borrowings for the funding requirements of our operations and expansion plans.

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

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12. FINANCIAL INFORMATION (CONT'D)**12.16 CAPITALISATION AND INDEBTEDNESS**

The table below sets out our capitalisation and indebtedness as at 31 March 2023 and after adjusting for the effects of the Public Issue including the utilisation of proceeds.

	Unaudited	I	II
	As at 31 March 2023	After the Public Issue	After I and utilisation of proceeds
	RM'000	RM'000	RM'000
Indebtedness			
<u>Current</u>			
<u>Secured and guaranteed</u>			
Bankers' acceptance	26,187	26,187	26,187
Receivable financing	3,165	3,165	3,165
Lease liabilities	210	210	210
Term loans	778	778	543
	30,340	30,340	30,105
<u>Unsecured and unguaranteed</u>			
Lease liabilities	301	301	301
<u>Non-current</u>			
<u>Secured and guaranteed</u>			
Lease liabilities	209	209	209
Term loans	37,766	37,766	28,001
	37,975	37,975	28,210
<u>Unsecured and unguaranteed</u>			
Lease liabilities	380	380	380
Total borrowings	68,996	68,996	58,996
Total contingent liabilities	-	-	-
Total indebtedness	68,996	68,996	58,996
Capitalisation			
Shareholders' equity	47,207	81,607	79,486
Total capitalisation and indebtedness	116,203	150,603	138,482
Gearing ratio (times)⁽¹⁾	1.46	0.85	0.74

Note:

(1) Computed based on total borrowings divided by total capitalisation.

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION



Date: **12 APR 2023**

**The Board of Directors
Synergy House Berhad**
Lot 19.A, Level 19, Top Glove Tower,
No. 16 Persiaran Setia Dagang,
Bandar Setia Alam, Seksyen U13,
40170 Shah Alam,
Selangor, Malaysia.

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants
8, Jalan Pesta 1/1
Taman Tun Dr. Ismail 1, Jalan Bakri
84000 Muar, Johor
Malaysia
Main +6 06 9524 328
Fax +6 06 9527 328
info.muar@crowe.my
www.crowe.my

Dear Sirs

**SYNERGY HOUSE BERHAD ("SHB" OR "THE COMPANY")
REPORT ON THE COMPILATION OF PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022**

We have completed our assurance engagement to report on the compilation of pro forma combined statements of financial position of SHB and its wholly owned subsidiaries, namely Synergy House Furniture Sdn. Bhd., Synergy House International Sdn. Bhd., Sunny & Ker Industries Sdn. Bhd. (collectively known as "SHB Group" or "the Group") as at 31 December 2022 and related notes which are as set out in Appendix A, for which we have stamped for the purpose of identification. The pro forma combined statements of financial position and related notes have been compiled by the Board of Directors of the Company ("Board of Directors") for inclusion in the Prospectus of SHB in connection with its listing of and quotation for its entire enlarged number of issued ordinary shares on the ACE Market of Bursa Malaysia Securities Berhad ("Proposed Listing").

The applicable criteria on the basis of which the Board of Directors have compiled the pro forma combined statements of financial position are set out in Note 2.2 of Appendix A, and in accordance with Chapter 9, Part II Division 1: Equity of the prospectus guidelines issued by the Securities Commission Malaysia ("Prospectus Guidelines").

The pro forma combined statements of financial position have been compiled by the Board of Directors for illustrative purpose only, to illustrate the impact of the events or transactions as set out in Note 3.1 of Appendix A of this letter on the Group's financial position as at 31 December 2022 as if the Group has been in existence throughout the financial year.

As part of this process, information about the Group's financial position has been extracted from the financial statements of Synergy House Furniture Sdn. Bhd., Synergy House International Sdn. Bhd., Sunny & Ker Industries Sdn. Bhd. for the financial year ended 31 December 2022, on which an audit report has been issued.

THE BOARD OF DIRECTORS' RESPONSIBILITIES

The Board of Directors is responsible for compiling the pro forma combined statements of financial position on the basis as described in Note 2.2 of Appendix A and in accordance with the requirements of Prospectus Guidelines.

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)


REPORTING ACCOUNTANTS' INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants and other ethical requirement of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies International Standard on Quality Management 1 (ISQM 1), *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Services Engagements* issued by The International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal regulatory requirements.

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion, as required by the Prospectus Guidelines, about whether the pro forma combined statements of financial position have been compiled, in all material respects, by the Board of Directors on the basis as described in Note 2.2 of Appendix A and in accordance with the requirement of Prospectus Guidelines.

We conducted our engagement in accordance with the International Standard on Assurance Engagement (ISAE) 3420, *Assurance Engagement to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board and adopted by the Malaysian Institute of Accountants. This standard requires that we plan and perform procedures to obtain reasonable assurance about whether the Board of Directors has compiled, in all material respects, the pro forma combined statements of financial position the basis as described in Note 2.2 of Appendix A and in accordance with the requirement of Prospectus Guidelines.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma combined statements of financial position, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma combined statements of financial position.

The purpose of pro forma combined statements of financial position included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction would have been as presented.

A reasonable assurance engagement to report on whether the pro forma combined statements of financial position have been compiled, in all material respects, on the basis as set out in Note 2.2 of Appendix A and in accordance with the requirements of the Prospectus Guidelines involves performing procedures to assess whether the applicable criteria used by the Board of Directors in the compilation of the pro forma combined statements of financial position provide a reasonable basis for presenting the significant effects directly attributable to the events or transactions, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma combined statements of financial position reflect the proper application of those adjustments to the unadjusted financial information.

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)



REPORTING ACCOUNTANTS' RESPONSIBILITIES (CONT'D)

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the events or transactions in respect of which the pro forma combined statements of financial position have been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma combined statements of financial position.

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

OPINION

In our opinion, the pro forma combined statements of financial position of the Company have been compiled, in all material respects, on the basis as described in Note 2.2 of Appendix A and in accordance with the requirement of Prospectus Guidelines.

OTHER MATTER

This report has been prepared solely for the purpose of inclusion in the Prospectus in connection with the Listing. As such, this report should not be used for any other purpose without our prior written consent. Neither our firm nor any member or employee of our firm undertakes responsibility arising in any way whatsoever to any party in respect of this report contrary to the aforesaid purpose.

Yours faithfully

A handwritten signature in blue ink that reads "Crowe".

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

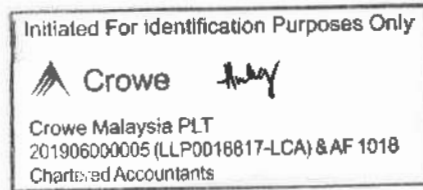
A handwritten signature in blue ink that reads "Gan Hwee Ling".

Gan Hwee Ling
03516/08/2024 J
Chartered Accountant

Muar, Johor Darul Takzim

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

SYNERGY HOUSE BERHAD



APPENDIX A

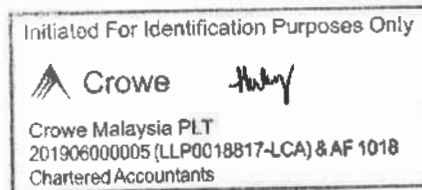
1. ABBREVIATION

Unless the context otherwise requires, the following words and abbreviations shall apply throughout this report:

Acquisitions	:	Acquisitions of SH Furniture, SH International and SK Furniture Industries
Acquisition of SH Furniture	:	Acquisition by SHB of the entire equity interest in SH Furniture comprising 1,000,000 ordinary shares for a purchase consideration of approximately RM30,053,254 which was fully satisfied by the issuance of 366,950,600 new Shares at an issue price of RM0.0819 per Share
Acquisition of SH International	:	Acquisition by SHB of the entire equity interest in SH International comprising 50,000 ordinary shares for a purchase consideration of approximately RM568,149 which was fully satisfied by the issuance of 6,937,099 new Shares at an issue price of RM0.0819 per Share
Acquisition of SK Furniture Industries	:	Acquisition by SHB of the entire equity interest in SK Furniture Industries comprising 1,560,000 ordinary shares for a purchase consideration of approximately RM3,776,597 which was fully satisfied by the issuance of 46,112,299 new Shares at an issue price of RM0.0819 per Share
SHB or Company	:	Synergy House Berhad (Registration No. 202101025778 (1426078-V))
SH Furniture	:	Synergy House Furniture Sdn. Bhd. (Registration No. 1990001010074 (201646-K))
SH International	:	Synergy House International Sdn. Bhd. (Registration No. 200601008985 (728735-V))
SK Furniture Industries	:	Sunny & Ker Furniture Industries Sdn. Bhd. (Registration No. 200401027947 (676458-D))
SHB Group or the Group	:	Collectively, the Company and its subsidiaries
Share(s)	:	Ordinary share(s) in the Company
IPO	:	Our initial public offering comprising the Public Issue and Offer for Sale collectively
IPO Price	:	Issue price/offer price of RM0.43 per Issue Share/Offer Share
Issue Share(s)	:	80,000,000 new Share(s) to be issued at the IPO Price pursuant to the Public Issue
Bursa Securities	:	Bursa Malaysia Securities Berhad (Registration No. 200301033577 (635998-W))
MITI	:	Ministry of International Trade and Industry

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

SYNERGY HOUSE BERHAD



APPENDIX A

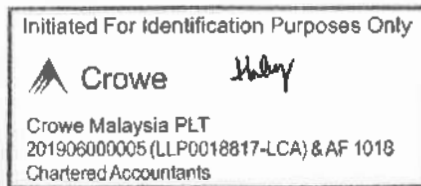
1. ABBREVIATION (CONT'D)

Unless the context otherwise requires, the following words and abbreviations shall apply throughout this report (Cont'd):

NA	:	Net assets
Eligible Person(s)	:	Directors, employees, and person who have contributed to the success of the Group.
Offer Share(s)	:	The 50,000,000 Shares to be offered at the IPO Price by the Selling Shareholder pursuant to the Offer for Sale
Proposed listing	:	Listing of and quotation for the entire enlarged number of issued ordinary shares of SHB on the ACE Market of Bursa Malaysia Securities Berhad
Prospectus	:	The Prospectus dated 12 May 2023 to be issued by the Company in respect of the IPO
Public Issue	:	Public Issue of 80,000,000 Issue Shares at the IPO Price comprising the following: <ul style="list-style-type: none"> (a) 25,000,000 Issue Shares, representing 5.00% of the enlarged total number of Shares, are made available for application by the Malaysian public; (b) 12,500,000 Issue Shares, representing 2.50% of the enlarged total number of Shares, are made available for application by the Eligible Persons; (c) 30,000,000 Issue Shares, representing 6.00% of the enlarged total number of Shares, are made available for application by way of private placement to selected investors; and (d) 12,500,000 Issue Shares, representing 2.50% of the enlarged total number of Shares, are made available for application by way of private placement to Bumiputera investors approved by the MITI.
RM and sen	:	Ringgit Malaysia and sen
Offeror or Selling Shareholder	:	Synergy House Furniture Holdings Sdn. Bhd. being the offeror or selling shareholder of all the Offer Shares
Listing	:	Admission to the Official List and the listing of and quotation for entire enlarged issued share capital of the Company on the ACE Market of Bursa Securities

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

SYNERGY HOUSE BERHAD

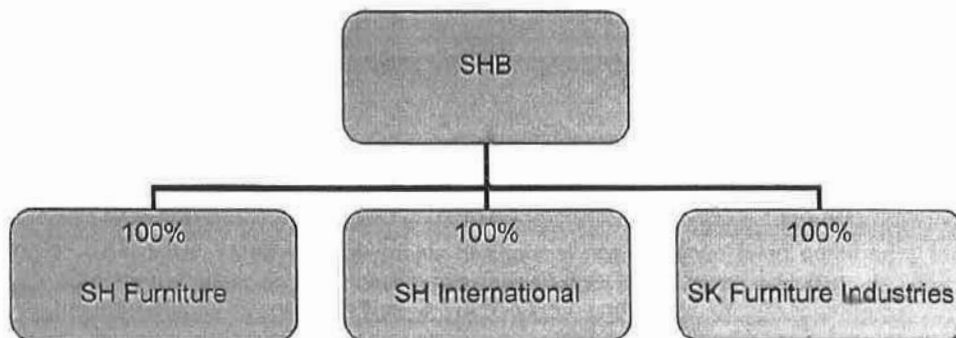


APPENDIX A

2. BASIS OF PREPARATION

2.1 Pro forma Group

The pro forma corporate structure of SHB Group is as follow:



The financial position of SHB and its subsidiaries are combined using the merger method as these companies are under common control by the same parties, both before and after the Acquisitions, and control is not transitory. When the merger method is used, the difference between the cost of investment recorded by SHB and the aggregate share capital of SH Furniture, SH International and SK Furniture Industries is accounted for as merger reserve in the pro forma combined statements of financial position, as follow:

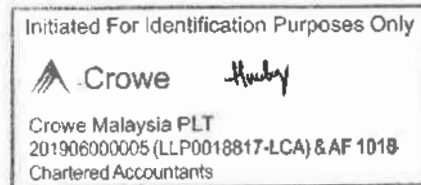
	RM'000
New share issued by the Company as consideration for the Acquisitions	34,398
Less: Reversal of issued and paid up share capital of SH Furniture, SH International, and SK Furniture Industries as at 31 December 2022	<u>(2,610)</u>
Re-organisation reserve	<u>31,788</u>

2.2 Applicable Criteria

- (a) The pro forma combined statements of financial position have been prepared solely to illustrate the effect on the financial positions of the Group as at 31 December 2022 had the transactions as set out in Note 3.1 herein been undertaken on 31 December 2022.
- (b) The audited combined statement of financial position used in compilation of pro forma combined statements of financial position of SHB have been prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, and are not subject to any qualification, modification or disclaimer of opinion.
- (c) The pro forma combined statements of financial position of SHB have been compiled in a manner consistent with both the format of the financial statements and accounting policies of the Group.
- (d) Material and appropriate adjustments have been made in the preparation of pro forma combined statements of financial position of SHB.

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

SYNERGY HOUSE BERHAD



APPENDIX A

2. BASIS OF PREPARATION (CONT'D)

2.3 Significant Subsequent Transaction

Distribution of Dividends

On 16 January 2023, SH Furniture declared and paid a 2nd interim dividend of RM700,000 in respect of financial year ended 31 December 2022.

The payment of interim dividend is illustrated in the pro forma combined statements of financial position to show the effect of such dividend payment had it occurred on 31 December 2022.

2.4 Listing Schemes

As part of the Proposed Listing, SHB shall undertake the followings:

(a) Acquisitions

On 6 December 2021 and 25 May 2022, SHB entered into a conditional share sale agreement and its supplemental agreement respectively to acquire the entire equity interests of the following entities:

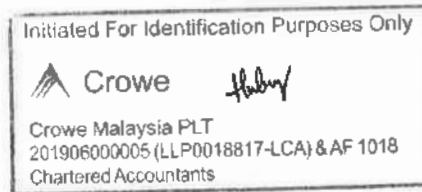
- (i) SH Furniture comprising 1,000,000 ordinary shares for a purchase consideration of approximately RM30,053,254 to be fully satisfied by the issuance of 366,950,600 new Shares at an issue price of RM0.0819 per Share.
- (ii) SH International comprising 50,000 ordinary shares for a purchase consideration of approximately RM568,149 to be fully satisfied by the issuance of 6,937,099 new Shares at an issue price of RM0.0819 per Share.
- (iii) SK Furniture Industries comprising 1,560,000 ordinary shares for a purchase consideration of approximately RM3,776,597 to be fully satisfied by the issuance of 46,112,299 new Shares at an issue price of RM0.0819 per Share.

The purchase consideration was arrived at on a willing-buyer-willing-seller basis, after taking into consideration the audited NA position of SH Furniture, SH International and SK Furniture Industries respectively, as at 31 December 2021.

The Acquisitions were completed on 20 January 2023, upon which the share capital of the Company increased from RM2 comprising 2 Shares to approximately RM34,398,002 comprising 420,000,000 Shares.

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)

SYNERGY HOUSE BERHAD



APPENDIX A

2. BASIS OF PREPARATION (CONT'D)

2.4 Listing Scheme (Cont'd)

As part of the Proposed Listing, SHB shall undertake the followings (Cont'd):

(b) Public Issue

Public issue of 80,000,000 Issue Shares, representing 16.00% of the total enlarged number of Shares, at the IPO Price, to be allocated in the following manner:

- (i) 25,000,000 Issue Shares, representing 5.00% of the enlarged total number of Shares, are made available for application by the Malaysian public;
- (ii) 12,500,000 Issue Shares, representing 2.50% of the enlarged total number of Shares, are made available for application by the Eligible Persons;
- (iii) 30,000,000 Issue Shares, representing 6.00% of the enlarged total number of Shares, are made available for application by way of private placement to selected investors; and
- (iv) 12,500,000 Issue Shares, representing 2.50% of the enlarged total number of Shares, are made available for application by way of private placement to Bumiputera investors approved by the MITI.

Upon completion of the Public Issue, the share capital shall increase from approximately RM34,398,002 comprising 420,000,000 Shares to approximately RM68,798,002 comprising 500,000,000 Shares.

(c) Offer for Sale

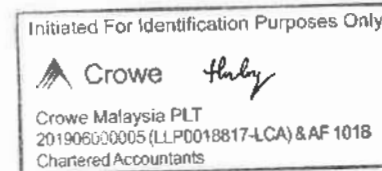
The Selling Shareholder is offering an aggregate of 50,000,000 Offer Shares at the IPO Price, representing 10.00% of the total enlarged number of Shares, by way of private placement to Bumiputera investors approved by the MITI.

The Offer for Sale does not have any impact on the pro forma statements of financial position as at 31 December 2022.

(d) Listing

Upon completion of the Public Issue and Offer for Sale, the Company shall be admitted to the official list of Bursa Securities and the entire enlarged share capital of approximately RM68,798,002 comprising 500,000,000 Shares shall be listed and quoted on the ACE Market of Bursa Securities.

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)



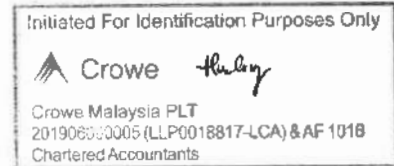
SYNERGY HOUSE BERHAD

APPENDIX A

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Note	As at 31 December 2022*	Acquisitions	Significant Subsequent Transaction	Pro Forma I After Acquisitions	Public Issue	Pro Forma II After Pro Forma I and Public Issue	Utilisation of Proceeds	Pro Forma III After Pro Forma II and Utilisation of Proceeds
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
ASSETS									
NON-CURRENT ASSETS									
Property, plant and equipment		32,271			32,271		32,271		32,271
Right-of-use assets		22,462			22,462		22,462		22,462
TOTAL NON-CURRENT ASSETS		54,733			54,733		54,733		54,733
CURRENT ASSETS									
Inventories		26,889			26,889		26,889		26,889
Trade receivables		15,404			15,404		15,404		15,404
Other receivables, deposits and prepayments		5,908			5,908		5,908		5,908
Current tax assets		584			584		584		584
Deposits with licensed banks		12,704			12,704		12,704		12,704
Cash and bank balances	3.2	14,723		(700)	14,023	34,400	48,423	(12,589)	35,834
TOTAL CURRENT ASSETS		76,212			75,512		109,912		97,323
TOTAL ASSETS		130,945			130,245		164,645		152,056
EQUITY AND LIABILITIES									
Equity attributable to owners of the Company									
Share capital	3.3	-	34,398		34,398	34,400	68,798	(1,379)	67,419
Invested capital	3.3	2,610	(2,610)		-		-		-
Re-organisation reserve	3.4	-	(31,788)		(31,788)		(31,788)		(31,788)
Revaluation reserve		7,655			7,655		7,655		7,655
Retained profits	3.5	36,085		(700)	35,385		35,385	(1,210)	34,175
TOTAL EQUITY		46,350			45,650		80,050		77,461

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)



SYNERGY HOUSE BERHAD

APPENDIX A

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022 (CONT'D)

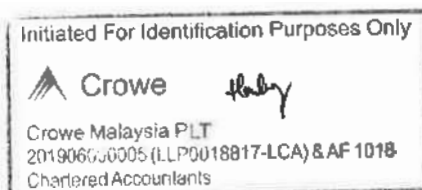
	Note	As at 31 December 2022*	Acquisitions	Significant Subsequent Transaction	Pro Forma I After Acquisitions	Public Issue	Pro Forma II After Pro Forma I and Public Issue	Utilisation of Proceeds	Pro Forma III After Pro Forma II and Utilisation of Proceeds
		RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
NON-CURRENT LIABILITIES									
Bank borrowings	3.6	37,749			37,749		37,749	(9,641)	28,108
Lease liabilities		561			561		561		561
Deferred tax liabilities		2,688			2,688		2,688		2,688
TOTAL NON-CURRENT LIABILITIES		40,998			40,998		40,998		31,357
CURRENT LIABILITIES									
Trade payables		9,772			9,772		9,772		9,772
Other payables and accruals		6,616			6,616		6,616		6,616
Bank borrowings	3.7	25,241			25,241		25,241	(359)	24,882
Lease liabilities		401			401		401		401
Current tax liabilities		1,567			1,567		1,567		1,567
TOTAL CURRENT LIABILITIES		43,597			43,597		43,597		43,238
TOTAL LIABILITIES		84,595			84,595		84,595		74,595
TOTAL EQUITY AND LIABILITIES		130,945			130,245		164,645		152,056
No. of ordinary shares in issue ('000)		#			420,000		500,000		500,000
NA (RM'000)		46,350			45,650		80,050		77,461
NA per share (RM)		-			0.11		0.16		0.15
Gearing ratio (times)		1.38			1.40		0.80		0.70
Net gearing ratio (times)		0.79			0.82		0.04		0.07

Notes:

* Extracted from the audited combined financial statements of Synergy House Berhad

Represent 2 ordinary shares

13. REPORTING ACCOUNTANTS' REPORT ON THE PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION (CONT'D)



SYNERGY HOUSE BERHAD

APPENDIX A

3. PRO FORMA COMBINED STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022 (CONT'D)

3.1 Notes to Pro Forma Combined Statements of Financial Position

The pro forma combined statements of financial position as at 31 December 2022 have been prepared solely for illustrative purposes only to show the effects of the following transactions based on the assumptions that they had been undertaken on 31 December 2022:

(a) Pro Forma I

Pro Forma I incorporates the effects of the Acquisitions as set out in Section 2.4(a) after taking into account of the significant subsequent transaction as set out in Section 2.3.

(b) Pro Forma II

Pro Forma II incorporates the effects of the Pro Forma I and effect of the Public Issue as set out in Section 2.4(b) above.

(c) Pro Forma III

Pro Forma III incorporates the effects of Pro Forma I, and II, the utilisation of the proceeds from the Public Issue. The proceeds from the Public Issue will be utilised as follows:

Utilisation of proceeds	Amount of proceeds		Estimated timeframe for utilisation from the date of Listing
	(RM'000)	%	
<u>E-commerce fulfilment centre in Muar, Johor and overseas countries</u>			
- Purchase of inventories #	10,000	29.07	Within 18 months
<u>E-commerce fulfilment centre in Muar, Johor</u>			
- Purchase of racking system and forklifts #	1,500	4.36	Within 18 months
E-commerce advertising and promotions #	1,000	2.91	Within 18 months
Repayment of borrowings**	10,000	29.07	Within 6 months
Working capital #	7,700	22.38	Within 12 months
Estimated listing expenses @	4,200	12.21	Within 1 month
Total	34,400	100.00	

As at the latest practicable date of the prospectus, the utilisation of proceeds for each of these purposes is not factually supported by purchase orders or contractual binding agreements. Hence, the Group has not illustrated the utilisation of proceeds for these purposes in the pro forma combined statements of financial position.

** The Group intends to utilise RM10.00 million of its IPO proceeds to partially repay certain term loans as at 31 December 2022. The utilisation is reflected in the pro forma combined statements of financial position.