

8. INDUSTRY OVERVIEW

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

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02 JUN 2023

Dear Sirs/Madams,

Strategic Analysis of the Edible Bird's Nest Industry in Malaysia

Protégé Associates Sdn Bhd ("Protégé Associates") has prepared this 'Strategic Analysis of the Edible Bird's Nest Industry in Malaysia' for inclusion into the prospectus of MYMBN Berhad ("MYMBN" or the "Company") in relation to its listing on the ACE Market of Bursa Malaysia Securities Berhad.

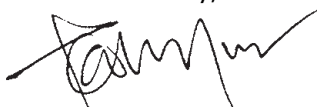
Protégé Associates is an independent market research and business consulting company. Our market research reports provide an in-depth industry and business assessment for companies raising capital and funding in the financial markets; covering their respective market dynamics such as market size, key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

Dr. Tan Chin How is a Director of Protégé Associates. He has 20 years of experience in consulting and market research for multiple industries ranging from manufacturing, information technology, renewable energy, steel, oil and gas, aquaculture to various other sectors. He has also provided his market research expertise to government agencies such as Malaysian Technology Development Corporation Sdn Bhd, Department of Fisheries Malaysia and Malaysian Green Technology Corporation.

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

Thank you.

Yours sincerely,



Dr. Tan Chin How
Director

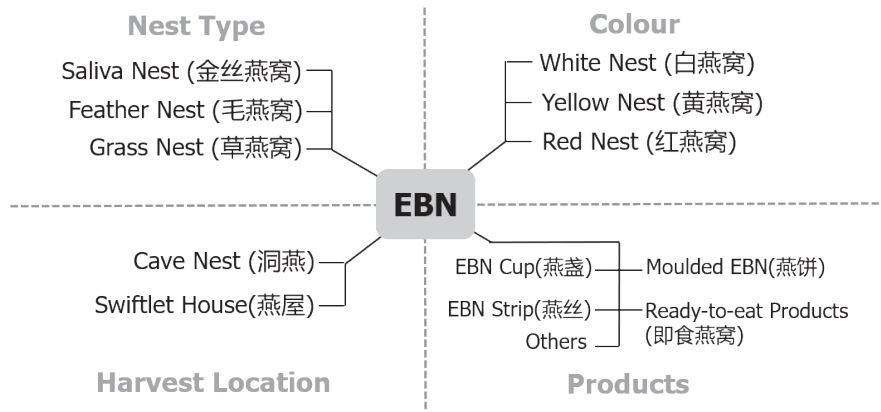
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1.0 Introduction to the Edible Bird’s Nest Industry

Edible bird’s nests (“EBN”) are nests that are made from the saliva strands of swiftlets. Among the many swiftlet species, only a few are notable to produce EBN from secreted saliva during breeding seasons. In particular, white-nest swiftlets (*Aerodramus fuciphagus*) and black-nest swiftlets (*Aerodramus maximus*) are considered as premium grade nests as both are formed mainly from the saliva secretion with only very low percentage of other materials such as grass, mud and feathers. The figure below depicts the general types of EBN that can be found in the market.

Figure 1: Types of EBN



Source: Protégé Associates

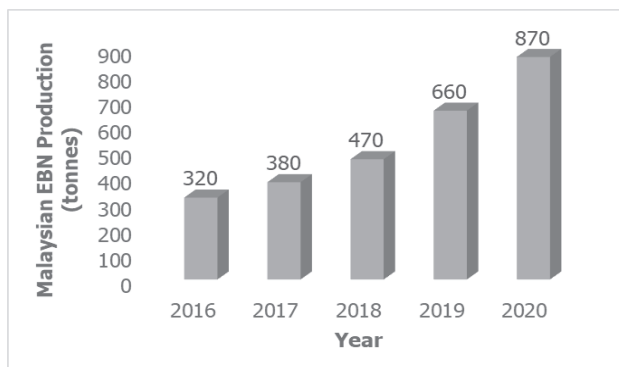
EBN are especially prized in the Chinese culture due to its widely known health and medicinal benefits such as moisturising the lung, resolving phlegm, alleviating cough and recuperating from diseases. This has made EBN among some of the most expensive animal products consumed by humans. The high demand for EBN has produced an economic value ranging from USD600 to USD10,000 per kg depending on its grade, shape, species and origin. In particular, the lesser impurities, the higher the price of the EBN. At the same time, whole, intact-shaped bird’s nests are able to fetch higher prices than broken apart (i.e., fragments) pieces. Additionally, EBN from white-nest swiftlets are pricier than black-nest swiftlets while EBN harvested from caves tend to cost more than those from swiftlet houses. While EBN have traditionally mainly been consumed as bird’s nest soup, it has also been increasingly used in other health food and beverages, as well as in skincare and cosmetic products.

The growth and reproduction of swiftlets require a series of appropriate environmental conditions such as humidity of around 80% to 90%, temperature of between 26°C and 35°C, as well as sufficient food sources. As such, the major EBN producing countries are mainly found in Southeast Asian countries such as Malaysia, Thailand, Indonesia, Myanmar, Vietnam, the Philippines, and Cambodia, as well as parts of the southern region of China. At present, major producers and exporters of EBN include Indonesia, Malaysia and Thailand. Currently, China is the largest importer of EBN in the world.

Bird’s nest has traditionally been harvested directly from their natural habitats, which were mainly on the vertical walls of the caves. Due to the high-risk hazards from performing the harvesting tasks, the use of swiftlet homes was adopted in the 1970s and 1980s. Swiftlet homes are mainly artificial habitats that mimic the natural habitat of the swiftlets. They can be converted from existing structures or can be purpose-built. These swiftlet homes in general are constructed in close proximity to swiftlet populations, and a series of audio speakers that emit swiftlet chirping sounds are used to attract these swiftlets to the artificial habitat.

2.0 Overview of the Edible Bird’s Nest Industry in Malaysia

There is a good prospect for the EBN industry mainly driven by the growing affluent consumers in Asia. In the past, EBN in Malaysia were mainly collected in lime stone caves in the Borneo Island namely, Sabah and Sarawak. As the demand for EBN rose over the years, swiftlet farmers adopted the use of swiftlet houses to increase production. The use of swiftlet house effectively removed the risks associated from harvesting bird’s nests from dangerous cave walls and increased the locations suitable for farming swiftlets.

8. INDUSTRY OVERVIEW (CONT'D)**Figure 2: Malaysia EBN Production, 2016-2020**

Source: Protégé Associates

Due to its potential of generating high income for operators, the EBN industry had caught the attention of the Malaysian Government. As such, the 'Increasing the production of "Edible Bird Nest" (Swiftlet Nest)' was created as an Entry Point Project ("EPP") under the Economic Transformation Programme ("ETP") – an initiative by the Malaysian government to transform the country into a high-income economy. The EPP involves all the activities in the EBN industry value chain which encompasses swiftlet nest production, gathering, processing and marketing.

Under the ETP, the local EBN industry aims to capture 40% of the global market share and generate gross national income ("GNI") of up to RM4.5 billion by 2020. As a result, the local production of EBN has been steadily increasing over the years as depicted in Figure 2. While under the ETP that was drawn up in 2010, the production of EBN was forecast to reach 870 tonnes per annum in 2020. However, due to the ongoing coronavirus ("COVID-19") pandemic disrupting economic activities, it is expected that there will be a shortfall to the target.

A large proportion of EBN from Malaysia is exported, with the majority of EBN exports going to China, where there is high demand in the Chinese market. Other export destinations for Malaysian EBN include Hong Kong, Taiwan, Laos, Vietnam, South Korea and the US. In particular, Malaysia's export of bird's nest to China has increased significantly from approximately 15,900kg in 2016 to 159,800kg in 2022. Meanwhile, Malaysia's export of bird's nest to Vietnam also expanded from approximately 38kg in 2016 to 34,652kg in 2021.

Given that MBN Enterprise Sdn Bhd ("MBN Enterprise"), a wholly-owned subsidiary company of MYMBN is mainly focused on the exports of raw uncleaned edible bird nests ("RUCEBN"), Protégé Associates has used the value of EBN exports as the market size for the industry MBN Enterprise participates in. Exports of EBN was valued at RM1,112.9 million in 2021. This figure increased to an estimated RM1,446.7 million in 2022, representing an increase of 30.0% from the previous year. Going forward, the value of exports is expected to expand at a compound annual growth rate ("CAGR") of 34.0% from RM1,880.7 million in 2023 to RM6,246.8 million in 2027.

Figure 3: Historical Market Size (In Terms of Export Value) and Growth Forecast for the EBN Industry in Malaysia, 2019-2027

Year	Market Size (in terms of export value) (RM million)	Growth Rate (%)
2019	561.4	-
2020	905.2	61.2
2021	1,112.9	22.9
2022 ^e	1,446.7	30.0
2023 ^f	1,880.7	30.0
2024 ^f	2,539.0	35.0
2025 ^f	3,427.6	35.0
2026 ^f	4,627.3	35.0
2027 ^f	6,246.8	35.0

CAGR (2022-2027) (base year of 2022): 34.0%

Note: ^e denotes estimate, ^f denotes forecast

Sources: Department of Veterinary Services Malaysia ("DVS") and Protégé Associates

In 2020, while the COVID-19 pandemic outbreak had affected global economic activities, exports of Malaysian EBN still expanded at double-digit levels. In addition to the belief that EBN has the ability to rejuvenate and restore youthfulness, it is believed to offer good effect for strengthening the immune system, suppressing cough and improving weakness of bronchial ailments. As such, there has been drastic increase in EBN sales to China in the latter half of the year. China, which makes up around 60% of Malaysian EBN exports, was one

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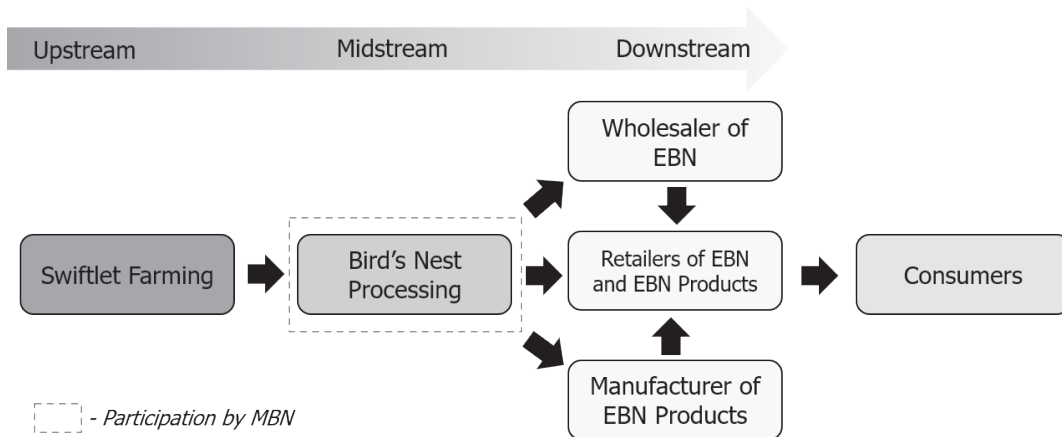
of the first countries in the world to restart economic activities after harsh lockdown measures earlier in the year to contain COVID-19. The environment surrounding the Malaysian EBN industry remained challenging in 2021 due to the resurgence of COVID-19 cases across the country, with both the Delta and Omicron variant being widespread. Malaysia later transitioned into an endemic phase on 1st April 2022, whereby all economic sectors are allowed to operate without restrictions. The country recorded growth of 8.7% in its GDP in 2022, as compared to 3.1% in the previous year. Going into 2023, the local EBN industry is expected to continue on a growth trajectory in line with the economy recovery in Malaysia. At the same time, China’s economic reopening since the end of 2022 is also expected to spur economic activities as well as higher demand for imports, including for EBN.

3.0 Competitive Landscape

The EBN industry can be segmented into upstream, midstream and downstream segments based on activities. The upstream segment mainly includes swiftlet farming and harvesting of bird’s nest comprising 14,307 swiftlet houses and 5 swiftlet caves that have been registered, and 2,143 swiftlet houses have successfully obtained Malaysian Good Agricultural Practices (“MyGAP”) certification up until August 2022 according to the Ministry of Agriculture and Food Industries (“MAFI”). These include small-scale farmers that operated one or few swiftlet houses that sell unprocessed bird’s nest due to the lack of manpower, expertise and resources. Meanwhile, midstream bird’s nest processing companies typically sources bird’s nest from the bird’s nest farmers, and further processed them into either raw cleaned edible bird nests (“RCEBN”) or RUCEBN. Lastly, downstream players such as wholesalers and, manufacturers and retailers are largely involved in the manufacturing, distribution and retailing of EBN products.

The figure below depicts the general EBN industry value chain, whereby the industry can be segmented into the upstream, midstream and downstream segments based on activities.

Figure 4: EBN Industry Value Chain



Source: Protégé Associates

Upstream – This segment mainly involves the farming of swiftlets and harvesting of bird’s nest. Participants in this segment comprise of both individual farmers as well as swiftlet farming companies. The activities here mainly involve the setting up swiftlet farm houses to attract swiftlets and collection of bird’s nests which are then sold without any processing.

Midstream – This segment is participated by companies involved in the processing of EBN into RCEBN or RUCEBN. Some of the activities in this segment include sorting, soaking (the dry bird’s nest is soaked in clean water for a period ranging from 4 to 8 hours), picking out impurities (impurities such as feather, grass and mud are removed), separating and moulding (the cleaned bird’s nest is separated and moulded into cup shapes), draining of moisture (excess water is removed using a filtration screen or left to air dry), as well as grading and packing. In particular, raw uncleaned EBN only involves certain processing procedures such as sorting, separating, drying, weighing, grading and packing. **MBN Enterprise is principally involved in the processing and sales of RUCEBN.**

Downstream – This segment is participated by wholesalers (distributors) of EBN, manufacturers of EBN products and retailers of EBN and EBN products. These wholesalers distribute products to retailers such as traditional Chinese medicine shops or other retailing companies. Retailers also include individual farmers that

8. INDUSTRY OVERVIEW (CONT'D)



market their products under their own brands. Meanwhile, manufacturers of EBN products include those producing ready-to-drink EBN or cosmetic/skincare products using EBN.

Each segment is unique with its own sets of complexity. In spite of lower regulatory barriers, market participants within the upstream segment have to contend with various complex factors such as the geography of the area, swiftlet's population, food source and microenvironment which requires special scrutiny and interventions; and, as a result may experience uncertain returns.

Meanwhile, midstream segment participants have to contend with regulatory requirements when carrying out processing and trading activities. They are required to obtain various licenses, permits, registrations and/or certifications from relevant government agencies. In particular, it is mandatory for businesses conducting local operations (processing or trading of bird's nest) to register their EBN processing plant as a food premise with the Ministry of Health ("MOH") and registering the plant with the DVS. Other certifications within the food processing sector in Malaysia include the Hazard Analysis and Critical Control Point ("HACCP") certification, the Good Manufacturing Practice ("GMP") certification, the Veterinary Health Mark ("VHM") certificate and the Good Veterinary Hygiene Practice ("GVHP") certification. These certifications are voluntary in nature with the exception of the VHM certificate which is required when exporting food products.

For companies intending to export EBN to other countries, a Veterinary Health Certificate, a VHM certificate and identification registration from the DVS, and an export permit from Malaysian Quarantine and Inspection Services ("MAQIS") is generally required. Only companies intending to export EBN to China are further required to obtain approval by the General Administration of Customs of the People's Republic of China ("GACC") and health certificate from the MOH for RCEBN exports. This is in addition to the requirements for more workers, specifically skilled workers as compared to upstream segment. This represents a relatively higher barriers to entry into the midstream segment as compared to the upstream and downstream segments.

The DVS has accredited and given a VHM certification to 44 processing plants and a GVHP certification to 42 processing plants. The VHM aims to strengthen the verification system and the issuance of Veterinary Health Certificates for animal-based products for the export market. Meanwhile, the GVHP is a certification scheme that is adopted voluntarily by small and medium-scale businesses within the animal-based food industry whereby these businesses go through a periodical veterinary inspection process conducted by trained veterinary inspection officers. This is to ensure that these businesses fully comply with the basic standards of hygiene and safety set out by the DVS.

Lastly, downstream segment participants need to create the awareness and demand for their products as well as ensuring products availability in order to compete effectively. In particular, manufacturers of EBN products would also be required to make the necessary investments on the production as well as ensuring consistent supply of bird's nest to produce the final EBN products.

3.1 Competitor Analysis

MYMBN and its subsidiary, namely MBN Enterprise (collectively "the Group") are principally involved in the operations of bird's nest processing, specifically RUCBN. Majority of MYMBN's products are exported, in particular to China. In 2021, MBN Enterprise is one of the 41 companies incorporated in Malaysia approved by the GACC to export EBN and EBN products into China. For the financial year ended ("FYE") 31 December 2022, the Group recorded revenue of RM68.9 million from its operations.

For the purpose of comparison, Protégé Associates has selected the following market players that are comparable to MBN Enterprise, based on the following criteria:

- A company registered in Malaysia and involved in the processing and trading of bird's nest and bird's nest products;
- Obtained approval from the GACC; and
- Recorded an annual turnover of between RM30 million and RM100 million based on latest publicly available financial information.

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

8. INDUSTRY OVERVIEW (CONT'D)**Dama Dingji Yanwo Sdn Bhd ("Dama Dingji")**

Dama Dingji is principally involved in the processing and selling of bird's nest products. Dama Dingji's products include cleaned EBN and ready-to-eat bird's nest products. Dama Dingji's products are marketed under the Dama Dingji Yanwo (大马顶级燕窝) brand. For FYE 30 April 2022, Dama Dingji had a revenue of RM90.4 million and profit after tax of RM805,263.

Ming Feng Marketing (M) Sdn Bhd ("Ming Feng")

Ming Feng is principally involved in the processing and selling of bird's nest products. Ming Feng is a subsidiary of Enest Group Berhad. Ming Feng's products include cleaned whole EBN (cup-shaped), EBN strips and ready-to-eat bird's nest products. Ming Feng's products are marketed under the Bai Leng Yen (百龄燕) brand. For FYE 31 December 2021, Ming Feng had a revenue of RM41.2 million and profit after tax of RM4.1 million.

Ricksen (M) Sdn Bhd ("Ricksen")

Ricksen is principally involved in the trading of bird's nest and bird's nest products. The company is also involved in the processing of EBN. Ricksen's products include cleaned EBN and ready-to-eat bird's nest products. Ricksen's products are marketed under the Xiang Fei (香妃) brand. For FYE 31 December 2021, Ricksen had a revenue of RM51.9 million and profit after tax of RM981,912.

Figure 5: Comparison between MBN Enterprise and Selected Market Players

Company Name	MBN Enterprise	Dama Dingji	Ming Feng	Ricksen
Latest Available Financial Year	31 December 2022	30 April 2022	31 December 2021	31 December 2021
Revenue (RM'000)	68,871.0	90,436.5	41,239.8	51,855.0
Gross Profit (RM'000)	9,960.0	3,037.8	3,577.1	3,921.8
Profit Before Tax (RM'000)	6,047.0	920.4	5,402.5	1,348.9
Profit After Tax (RM'000)	4,322.0	805.3	4,096.5	981.9
Gross Profit Margin ¹ (%)	14.5	3.4	8.7	7.6
Profit Before Tax Margin ² (%)	8.8	1.0	13.1	2.6
Profit After Tax Margin ³ (%)	6.3	0.9	9.9	1.9

Notes:

- The list of market players is alphabetically arranged and does not constitute as a ranking;
- The above figures only provide an indication and is not considered directly comparable due to the following reasons:
 - Not all companies have the same financial year end; and
 - Not all companies carry out activities that are completely the same to each other or in the same geographical area.
- Financial information of comparable market players and MBN Enterprise such as revenue, profit/ loss before tax and profit/ loss after tax were based on information from Companies Commission of Malaysia and MBN Enterprise, respectively while the financial ratios in the table were computed by Protégé Associates.

¹ Gross Profit Margin = Gross Profit / Revenue
² Profit before Tax Margin = Profit before Tax / Revenue
³ Profit after Tax Margin = Profit after Tax / Revenue
- In addition to MBN Enterprise, two other companies namely Silk Road Birdnest Sdn Bhd and Beho Birdnest Sdn Bhd have also been approved by the GACC to export RUCEBN to China. However, these two companies have not been selected as comparable companies as they do not fulfil the revenue criteria set by Protégé Associates. For the FYE 30 September 2021, Beho Birdnest Sdn Bhd registered revenue of RM2.9 million, while for the FYE 31 December 2021, Silk Road Birdnest Sdn Bhd registered revenue of RM18.4 million.

Source: Companies Commission of Malaysia, MBN Enterprise and Protégé Associates

For the FYE 31 December 2022, MBN Enterprise had a gross profit margin of 14.5%, which is above the gross profit margin of selected market players of between 3.4% to 8.7%. According to MBN Enterprise, they have a comparatively higher gross profit margin predominantly due to efficient cost management whereby they

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perform strict quality control and inspection when purchasing raw bird's nests, thereby reducing the purchase of raw bird's nests which are in inferior quality. In addition, MBN Enterprise focuses on maximising the productivity of all its operation employees which keeps staff cost at an efficient level. During the year, MBN Enterprise's profit before tax margin of 8.8% falls within the range of profit before tax margin of its selected peers of between 1.0% and 13.1%. MBN Enterprise's profit after tax margin of 6.3% also falls within the range of profit after tax margin of its selected peers of between 0.9% and 9.9%.

3.2 MBN Enterprise's Market Share Analysis

For the FYE 31 December 2022, MYMBN generated revenue of approximately RM67.9 million from its export sales, which is equivalent to an estimated 4.7% share of the total value of exports of Malaysian EBN of RM1,446.7 million in 2022.

4.0 Demand and Supply Conditions**Figure 6: Demand and Supply Conditions Affecting the EBN Industry in Malaysia, 2023-2027**

Impact	Conditions	Short-Term	Medium-Term	Long-Term
		2023-2024	2025-2026	2027
Demand Conditions				
+	Increasing Demand for EBN from International and Local Markets	High	High	High
+	The Growing Affluence of Consumers	High	High	High
+	Increasing Health Awareness Among Consumers	Medium	Medium	High
+	Wide Range of EBN Products to Cater to Consumer's Different Requirements	Medium	Medium	Medium
Supply Conditions				
+	Positive Support from the Malaysian Government to Develop the Local EBN Industry	High	High	High
-	Strict Regulatory Requirement May Restrict Participation of New Entrants into the Industry	Low	Low	Low

Source: Protégé Associates

Demand Conditions**Increasing Demand for EBN from International and Local Markets**

The demand for EBN has been increasing over the years, from both international markets and in Malaysia. In particular, China has been Malaysia's largest EBN export destination, and has accounted for around 60% of total EBN exports. Other major export destinations include Hong Kong, Taiwan, Laos, Vietnam, South Korea and the US.

In particular, the demand for EBN in China has been increasing rapidly in recent years. Traditionally, demand for EBN in China was mainly in coastal provinces such as Guangdong and Fujian. Currently, consumers in landlocked areas such as Chengdu, Inner Mongolia and Anhui have also been increasing consumption of EBN. In the past, EBN was a delicacy that only the upper class were able to enjoy. EBN is now more commonly consumed by the mass population. China is also one of the fastest growing economies in the world, whereby the country was one of the very few that managed positive growth in 2020 during the onslaught of the COVID-19 pandemic. China's GDP expanded by 8.1% in 2021. While China faced a setback in 2022 as an outbreak of COVID-19 cases in the country that led to lockdowns in some major cities, these restrictions were then lifted nationwide in December 2022. The country's economy expanded by 3.0% in 2022 and is forecast to grow by 5.2% in 2023, according to the International Monetary Fund. Along with economic growth comes a growing middle-income group, which is expected to drive consumption for more expensive products such as EBN.

In Malaysia, there is also growing awareness of the health and beauty benefits of consuming EBN. In addition to processed and unprocessed bird's nest which require additional preparations before being able to be consumed, more and more ready-to-eat EBN products have been launched to suit the busy lifestyle of the Malaysian population. The above development is expected to remain a constant growth driver for the EBN industry.

8. INDUSTRY OVERVIEW (CONT'D)



The Growing Affluence of Consumers

While the medicinal, health and beauty benefits of EBN are well-known among consumers, all these benefits come with a hefty price tag; ranging from USD600 to USD10,000 per kg depending on its grade, shape, species and origin.

However, with the growing affluence of consumers, EBN has now become more affordable. Based on World Bank statistics, the adjusted net national income per capita of the world was USD9,748 in 2021, which was an increase from USD8,769 in 2020. The adjusted net national income per capita of East Asia & Pacific (which includes American Samoa, Australia, Brunei, Cambodia, China, Fiji, French Polynesia, Guam, Hong Kong, Indonesia, Japan, Kiribati, Democratic People's Republic of Korea, Republic of Korea, Laos, Macau, Malaysia, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, New Caledonia, New Zealand, Northern Mariana Islands, Palau, Papua New Guinea, Philippines, Samoa, Singapore, Solomon Islands, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu and Vietnam) was USD9,684 in 2021, which was an increase from USD8,620 in 2020. In China, the adjusted net national income per capita was USD9,015 in 2021, up from USD7,510 in 2020. This is an exponential increase when compared against the adjusted net national income per capita of USD801 back in the year 2000. Closer to home, the per capita income in Malaysia was RM42,823 in 2020, and grew to RM46,163 in 2021. This figure reached RM52,819 in 2022 and is forecast to reach RM55,186 in 2023.

The rise in income is expected to lead to greater spending power. Given the greater spending power, more consumers are inclined to shift from only buying necessities to purchasing more expensive and higher quality products, including EBN. This bodes well for the development of the local EBN industry.

Increasing Health Awareness Among Consumers

Urbanisation is often accompanied with increasingly hectic lifestyles due to longer working hours as well as more social activities. The following stress-related issues have led to growing health awareness among the global population. In addition to physical exercise, a growing number of the population are also resorting to intake of alternative medicine or health supplements.

EBN has long been perceived by the Chinese culture as a prized delicacy due to its medicinal, health and beauty benefits. The Chinese believe that EBN can stimulate cell division and growth, hasten tissue regeneration as well as boosting the immune system. This is backed by various studies that have discovered that EBN does have immune system-enhancing qualities as well as promote cell growth and regeneration. As more people become aware of the benefits of EBN, it is expected to drive demand for EBN going forward.

Wide Range of EBN Products to Cater to Consumer's Different Requirements

In the past, the best-known use of EBN was as a Chinese delicacy known as bird's nest soup. However, EBN has since been incorporated into a much more diverse range of products. For examples, in addition to the traditional bird's nest soup that is double boiled with rock sugar, some of the newer food products that incorporate EBN includes bird's nest egg tarts as well as ready-to-eat EBN products (mostly in bottled form). Furthermore, EBN has also been increasingly used in cosmetic products such as face masks and skin care products.

Traditionally, EBN were sold in its dried whole nest form (cup-shaped nest). However, due to its exorbitant pricing, EBN were generally not affordable to the mass market. As a result, the lower priced EBN strips and moulded EBN (EBN pieces that are moulded into a certain shape) were introduced into the market to cater for the less affluent. To cater to the increasingly hectic lifestyle of the population, ready-to-cook EBN (EBN that have been soaked and vacuumed-packed) were also brought into the market. The various forms of EBN in the market caters to the requirements of different customers, thus increasing the demand for EBN. This development is expected to bode well for the growth of the local EBN industry.

Supply Conditions

Positive Support from the Malaysian Government to Develop the Local EBN Industry

Due to its high potential of generating substantial incomes for operators, the local EBN industry has attracted the attention of the Malaysian Government. An EPP titled 'Increase the production of "Edible Birds Nest" (Swiftlet nest)' was created under the ETP. The implementation of the EPP is to be led and financed by the private sector, while the Malaysian Government plays the role of facilitator that will allocate some public funding which acts as a catalyst in creating a market-driven industry, economy of scale and integrated agriculture.

The Malaysian Government has also been pushing for further exports of EBN, in particularly to China, which is currently Malaysia's largest export destination for EBN. Under the efforts of the Federation of Malaysian

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Bird's Nest Association, Malaysian EBN and items made from them will be among the products being showcased at the China International Consumer Products Expo in Hainan in 2021. In January 2023, the Department of Commerce of Guangxi Zhuang Autonomous Region and the "Belt and Road Initiative" Committee of Malaysia signed a Memorandum of Economic and Trade Cooperation and several trade and procurement contracts or investment cooperation projects, including for the procurement of bird's nest. This is expected to lead to an increase in product visibility and in turn drive demand for Malaysian EBN.

Strict Regulatory Requirement May Restrict Participation of New Entrants into the Industry

While the local EBN industry has the potential to generate high income for operators, the industry is also highly regulated. A company intending to carry out the business of processing or trading of bird's nest in Malaysia is required to obtain licenses, permits, registrations and certifications from the relevant government authority in the country.

Some of these licences, permits and registrations include registering the EBN processing plant as a food premise with the Ministry of Health and registering the plant with the DVS. Players in the local EBN industry will also be required to obtain a VHM certificate or a GVHP certificate. Due to EBN being a consumable food product, manufacturers of EBN products are required to obtain a HACCP certification and a GMP certification from the Ministry of Health. Other licences and certifications include a manufacturing licence from the Ministry of Investment, Trade and Industry of Malaysia ("MITI") for and the Makanan Selamat Tanggungjawab Industry ("MeSTI") certificate for companies intending to manufacture bird's nest products.

Each regulation, permit or certification requires the EBN industry player to comply with certain set of rules. As not all industry players are able to fulfil all of these restrictions, it may deter new players from entering the industry.

5.0 Barriers to Entry, Substitute Products and Industry's Reliance on and Vulnerability to Imports

The EBN industry in Malaysia has relatively low barriers to entry due to the low cost required to set up small-scale operations. However, industry players may face challenges when moving downstream. The processing and trading of EBN is a regulated business in Malaysia. A company intending to carry on the business of processing or trading of EBN in the country is required to obtain certain licences, permits, registrations and/or certification from relevant government agencies or competent issuing authority in Malaysia. Some of these requirements include registering the bird's nest processing plant as a food premise with the Ministry of Health, registering the bird's nest processing plant with the DVS, obtain a VHM certificate or a GVHP certificate, obtain a HACCP certificate, obtain a GMP certificate, and obtain a MeSTI certificate.

At the same time, companies intending to export their products to China, the largest consumer of EBN in the world, is also required to gain approval by the GACC and health certificate from the MOH for RCEBN exports. In 2022, only 40 companies in Malaysia have gained approval to export their products to China. Of this, 3 were involved in RUCEBN with the remainder companies involved in RCEBN, EBN and EBN products. Industry players will also likely face several notable challenges as they move downstream; they would require the required industry know-how, economies of scale as well as capital to compete effectively.

Substitute products are products that are different, but are able to satisfy the same need as another product. EBN are considered luxury foods that are mainly consumed based on their medicinal and health benefits. Possible substitutes for EBN are other types of food with similar medicinal or health benefits.

Malaysia is currently one of the major producers of EBN in the world and as such are not reliant on imports of bird nest or EBN. In 2021, Malaysia imported 0.4 tonnes of bird nest as compared to exporting 478.2 tonnes.

6.0 Prospects and Outlook of EBN Industry in Malaysia

Following an economic contraction in 2020, Malaysia's gross domestic product ("GDP") expanded by 3.1% despite a resurgence in COVID-19 cases and lockdown measures in 2021. Malaysia's economy further expanded by 8.7% in 2022 following the announcement of the transition of COVID-19 into an endemic phase during the year by the Malaysian Government, whereby all economic sectors were allowed to operate without restriction. The EBN industry in Malaysia had remained resilient during the pandemic and registered positive growths during the past three years. In 2022, the value of exports of EBN in Malaysia grew by 30.0% to RM1,446.7 million, up from RM1,112.9 million in the previous year.

Factors boosting the growth within the EBN industry is likely to come from the increasing demand for EBN from international and local markets. In particular, there has been a rapid rise in demand for Malaysian EBN in China in recent years, where more cities have been increasing their consumption of EBN. This trend has

8. INDUSTRY OVERVIEW (CONT'D)



also been bolstered by the growing middle-income in the country, making EBN more affordable to a larger pool of consumers. At the same time, the growing affluence of consumers have also bolstered demand for local EBN. The growing disposable income has led to EBN being accessible to a larger pool of consumers. As more consumers become aware of the benefits of consuming EBN, it is also expected to drive higher demand for EBN going forward.

On the supply side, the development of the local EBN industry is expected to be supported by the Malaysian Government’s initiatives. The Malaysian Government had established an EPP for the boosting the production of EBN within the country, as well as push for further exports of EBN via collaboration with the authorities of other countries. The Ministry of Agriculture and Food Industries (“MAFI”) had also announced it would intensify efforts to increase the export potential of EBN to China going forward.

Overall, exports of Malaysian EBN are expected to continue expanding going forward. The market of the local EBN industry is forecast to grow at a CAGR of 34.0% from RM1,880.7 million in 2023 to RM6,246.8 million in 2027.

7.0 Overview and Prospect of the EBN Industry in China

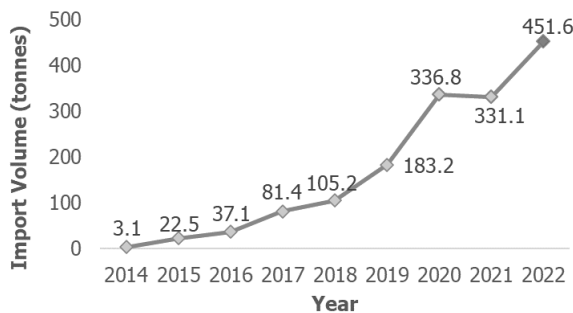
China is the largest consumer of EBN in the world, consuming more than 60% of total EBN production. As China’s climate is generally not suitable for the farming of swiftlet nests, the country’s domestic production of EBN is negligible. As such, the country relies on imports to fulfil its demand for EBN.

In recent years, the Chinese EBN industry has experienced rapid growth, mainly due to its health and beauty benefits. The country’s growing demand for EBN has continued to drive the production and exports from several countries. According to the China Chamber of Commerce for Importers and Exporters of Medicines and Health Products, the top three exporters of EBN into China are Indonesia, Malaysia and Thailand. To be an exporter of EBN to China, countries need to obtain approval from the Chinese Government. Some of the few countries that have gotten approval to export EBN to China include Singapore, Indonesia, Malaysia and Thailand. In addition, bird’s nest producers are also required to obtain the approval of the GACC before they can export to China. The GACC only began taking on the responsibility of approving the trade of bird’s nest in 2018. In Malaysia, registration with the GACC involves a three-step process, starting with Pre-Registration, whereby an Application for Registration of Overseas Manufacturers of Imported Bird’s Nest and Bird’s Nest Products is submitted to DVS. This is followed by Online Registration where a legal representative of the company will fill up all required information in the China International Trade Single Window System. The last step involves the inspection of the processing plant by a GACC auditor. EBNs that are imported into China are also certified by the Chinese Academy of Inspection and Quarantine, which is the national public institute for food quality. The certified EBNs are labelled with an anti-counterfeiting code and a QR code, which allows consumers to access information on the quality and origin of the product.

Previously, Malaysian EBN were banned from entering China due to nitrite contamination in 2011. The ban was subsequently lifted in 2014. China later imposed a temporary ban on Malaysian EBN from March 2017 to June 2017 following an outbreak of H5N1 avian flu in Kelantan in March 2017.

As seen in Figure 7 below, demand for EBN in China has been expanding at a rapid pace as shown by the increase of imports over the years. A CAGR of 86.4% had been recorded for the period from 2015 to 2022. In the year 2022, imports of EBN reached 451.6 tonnes, of which 291.8 tonnes came from Indonesia and 159.8 tonnes came from Malaysia.

Figure 7: Imports of EBN in China, 2014-2022



Source: China Academy of Inspection and Quarantine

Over the recent years, there has been a transitional trend among EBN consumer demographics. While traditionally EBNs were mainly consumed by women, it has since evolved into a product suitable for people of all ages. In particular, EBN consumption among highly educated younger generations have been increasing rapidly in recent years. In 2019, over 60% of EBN purchase on JD.com (a Chinese e-commerce platform) were made by people aged between 16 and 35. The rise of e-commerce platforms in China had also helped drive consumption of EBN.

8. INDUSTRY OVERVIEW (CONT'D)

With the use of big data technology and e-commerce, EBN have now become easily accessible to the mass population. As the younger Chinese generation tend to spend a lot of time on digital platforms in particular e-commerce platforms, the sales of EBN products on these platforms have also been on the rise. In particular, there has been significant increase in sales of EBN products on two of the most popular e-commerce platforms in China, namely Tmall and JD.com.

In addition, the demand for EBN in China has also been boosted by the growing spending power of the population. China's adjusted net national income per capita has increased from USD801 in 2000 to USD9,015 in 2021. As disposable income increases, consumers have a greater propensity to spend on discretionary products, including EBN.

Going forward, the prospect of the EBN industry in China remains positive. The EBN industry will continue to expand with more EBN products driving consumption by larger pool of customers, greater access to EBN being enabled by rise of e-commerce platforms, as well as growing spending power of the population. Accordingly, major EBN exporting countries such as Malaysia is expected to benefit from the rise in demand.

China-Malaysia Qinzhou Industrial Park

The China-Malaysia Qinzhou Industrial Park ("CMQIP") commenced development in 2012 through a partnership between the Chinese and Malaysian governments that aims to deepen the relationship and cooperation between China and Malaysia. Together with its sister park, Malaysia-China Kuantan Industrial Park ("MCKIP"), the two industrial parks fall under the "Two Countries, Twin Parks" initiative and has led to collaborations between both public and private sectors of Malaysia and China. The CMQIP combines China's and Malaysia's strengths and encourages development of emerging industries such as equipment manufacturing, electronics and information, food processing, traditional and new materials, and biotechnology.

A notable development in the CMQIP is the Bird's Nest Processing Trade Base, whereby raw, unprocessed bird's nests are imported from Malaysia to undergo processing. The raw, unprocessed bird's nests from Malaysia are checked, certified, and processed in the CMQIP for China market. There is also a bird's nest and nutritional health food testing laboratory in the park which enables scientific analysis on the quality and safety of food and agricultural products imported into Qinzhou. This development underscores the mutual commitments of both countries in the development of bird's nest industry.

8.0 Prospect of EBN Industry in Vietnam

According to the Asian Development Bank, Vietnam's economy grew by 8.0% in 2022 (2021: 2.6%) as the removal of COVID-19 restrictions and the achievement of nationwide vaccine coverage boosted growth, particularly in services. While growth in the country is forecast to be constrained in 2023 by the global slowdown, continued monetary tightening and, the war between Russia and Ukraine, the reopening of China is expected to be positive for the country despite such headwinds. Accordingly, Vietnam's economy is forecast to grow by 6.5% in 2023.

Along with China, consumers in Vietnam are highly appreciative of bird's nest and demand is expected to increase in tandem with a rapidly rising middle-income class and increasing disposable income. In addition, consumers in Vietnam are becoming increasingly willing to spend on healthcare. Accordingly, Malaysia's export of bird's nest to Vietnam expanded from approximately 38kg in 2016 to 34,652kg in 2021. Malaysia, having an established reputation as a major exporter of bird's nest along with a well-regulated EBN industry is well-placed to cater for the growing demands for EBN in Vietnam.

9. RISK FACTORS

NOTWITHSTANDING THE PROSPECTS OF OUR GROUP AS LISTED IN THIS PROSPECTUS, YOU SHOULD CAREFULLY CONSIDER, IN ADDITION TO THE OTHER INFORMATION CONTAINED ELSEWHERE IN THIS PROSPECTUS, THE FOLLOWING RISK FACTORS (WHICH MAY OCCUR EITHER SEPARATELY OR IN COMBINATION) THAT MAY HAVE ADVERSE IMPACT ON THE FUTURE PERFORMANCE OF OUR GROUP BEFORE INVESTING IN OUR SHARES.

If you are in any doubt to the information contained in this section, you should consult your stockbroker, bank manager, solicitor, accountant or other professional advisers.

9.1 RISKS RELATING TO OUR BUSINESS AND OPERATIONS

9.1.1 We are highly dependent on the approval from the GACC to export to the PRC

The PRC is Malaysia's largest EBN export destination where it accounted for more than 60% of EBN produced in the country. At the same time, for the FY Under Review, our sales to the PRC market contributed RM3.10 million or 26.02%, RM44.22 million or 99.58%, RM90.98 million or 99.38% and RM67.87 million or 98.55% of our revenue, respectively. The ability to export EBN products to the PRC is dependent upon the approval from the GACC. Therefore, our business is highly dependent on the approval from the GACC in order for us to operate and export our RUCEN products to the PRC.

The GACC approval is required to be renewed every five (5) years. An application for renewal of registration is required to be submitted to the GACC through the registration application channel within three (3) to six (6) months before its expiry date. In order for MBN Enterprise to obtain or renew the GACC approval, MBN Enterprise is required to obtain and continuously maintain VHM Certificate issued by DVS during the tenure of the GACC approval. MBN Enterprise's VHM Certificate will expire on 31 December 2023. VHM Certificate is subjected to biennial renewal, where the DVS will perform an on-site renewal audit within three (3) months before the expiry date.

We make no representation or warranty of the application conditions / renewal process in the future. We may not be able to comply with the updated terms and conditions which may be imposed by the PRC's authority from time to time in respect of the renewal of the GACC approval. Our GACC approval may also be affected and we may not be allowed to export our products to the PRC in the event that we are unable to maintain the VHM Certificate during the tenure of our GACC approval.

While our Group adheres to current regulations and operational protocols as imposed by the PRC government, any changes to these terms and conditions in the future are factors beyond our control. There is no assurance that we will continue to be able to renew the GACC approval in the future should such events occur.

Any failure to renew the GACC approval would have an adverse effect on our business operations and financial performance. Failure to renew the GACC approval would result in us not being able to export to the PRC. The resulting loss of revenue, if not replaced in a timely manner, would adversely affect our business operations and financial performance given at least 98.55% of our Group's revenue in the last two (2) financial years were derived from the PRC.

9.1.2 We are highly dependent on certain major customers based in the PRC

For the FY Under Review, the majority of our RUCEN products are exported to customers in the PRC. We have 3 customers from the PRC out of 31 total customers in FYE 2019, 6 customers from the PRC out of 8 total customers in FYE 2020, 5 customers from the PRC out of 6 total customers in FYE 2021 and 6 customers from the PRC out of 8 total customers in FYE 2022.

For the FY Under Review, our sales to the PRC market contributed RM3.10 million or 26.02%, RM44.22 million or 99.58%, RM90.98 million or 99.38% and RM67.87 million or 98.55% of our revenue, respectively. Therefore, our business is highly dependent on our certain major customers in the PRC namely Southeast Edible Bird Nest Capital (Xiamen) Industrial Development Co., Ltd., Southeast Edible Bird Nest Capital Biotechnology Co., Ltd., Xiamen Free Trade Area Yan An Ju

9. RISK FACTORS (CONT'D)

Industrial Co., Ltd., China-Malaysia Qinzhou Industrial Park Jingu (Guangxi) Investment Co., Ltd., China-Malaysia Jinguyan (Guangxi) Biotechnology Co., Ltd, Jipintang Health Industry Co., Ltd., and Jipintang Food Co., Ltd. We have ceased our sales with Jipintang Food Co., Ltd. since November 2020, and subsequently commenced transactions with Jipintang Health Industry Co., Ltd. which has a common management with Jipintang Food Co., Ltd. They have cumulatively contributed approximately 26.02%, 96.22%, 98.83% and 91.42% to our revenue for the FYE 2019, FYE 2020, FYE 2021 and FYE 2022, respectively. The revenue contributions from the aforementioned customers are summarised as follows:

Customer	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Southeast Edible Bird Nest Capital (Xiamen) Industrial Development Co., Ltd. ⁽¹⁾	-	-	1,946	4.38	57,212	62.49	44,334	64.37
Xiamen Free Trade Area Yan An Ju Industrial Co., Ltd ⁽¹⁾	1,485	12.48	24,874	56.01	11,889	12.99	-	-
Southeast Edible Bird Nest Capital Biotechnology Co., Ltd. ⁽¹⁾	-	-	-	-	-	-	9,649	14.01
China-Malaysia Qinzhou Industrial Park Jingu (Guangxi) Investment Co., Ltd ⁽⁴⁾	838	7.04	10,446	23.52	9,325	10.19	-	-
Jipintang Food Co., Ltd. ⁽²⁾⁽³⁾	773	6.50	4,088	9.21	-	-	-	-
Jipintang Health Industry Co., Ltd. ⁽²⁾⁽³⁾	-	-	1,378	3.10	12,047	13.16	7,557	10.97
China-Malaysia Jinguyan (Guangxi) Biotechnology Co., Ltd ⁽⁴⁾	-	-	-	-	-	-	1,424	2.07
	3,096	26.02	42,732	96.22	90,473	98.83	62,964	91.42
Total revenue	11,897	100.00	44,408	100.00	91,556	100.00	68,871	100.00

Notes:

- (1) Xiamen Free Trade Area Yan An Ju Industrial Co., Ltd, Southeast Edible Bird Nest Capital (Xiamen) Industrial Development Co., Ltd. and Southeast Edible Bird Nest Capital Biotechnology Co., Ltd., have common directors and common shareholders. Our Group's total sales with these three (3) companies by virtue of their contribution to our Group's total sales, collectively represented 12.48%, 60.39%, 75.48% and 78.38% of our Group's total revenue for FYE 2019, FYE 2020, FYE 2021 and FYE 2022, respectively.
- (2) Jipintang Health Industry Co., Ltd and Jipintang Food Co., Ltd. have common management. Our Group's total sales with these two (2) companies by virtue of their contribution to our Group's total sales, collectively represented 6.50%, 12.31%, 13.16% and 10.97% of our Group's total revenue for FYE 2019, FYE 2020, FYE 2021 and FYE 2022, respectively.
- (3) We have ceased our sales with Jipintang Food Co., Ltd. since November 2020 and commenced transactions with Jipintang Health Industry Co., Ltd. Our Group's total sales with these two (2) companies contributed a total revenue of 12.31% in FYE 2020, where Jipintang Health Industry Co., Ltd has contributed RM1.38 million, representing 3.10% of our Group's total revenue.

9. RISK FACTORS (CONT'D)

(4) *China-Malaysia Qinzhou Industrial Park Jingu (Guangxi) Investment Co., Ltd and China-Malaysia Jinguyan (Guangxi) Biotechnology Co., Ltd have common management. Our Group's total sales with these two (2) companies by virtue of their contribution to our Group's total sales, collectively represented 7.04%, 23.52%, 10.19% and 2.07% of our Group's total revenue for FYE 2019, FYE 2020, FYE 2021 and FYE 2022, respectively.*

Although our Group has fostered business relationships with these customers, and is among one of the three (3) suppliers in Malaysia that have been approved by the GACC to export RUCEBN to the PRC, the loss of any of these major customers, if not replaced in a timely manner, would adversely affect our financial performance and future outlook. The other two (2) suppliers namely, Beho Birdnest Sdn Bhd and Silk Road Birdnest Sdn Bhd were registered by the GACC to export RUCEBN on 21 May 2021.

For further information, our major customers namely, Xiamen Free Trade Area An Ju Industrial Co., Ltd., Southeast Edible Bird Nest Capital (Xiamen) Industrial Development Co., Ltd. and Southeast Edible Bird Nest Capital Biotechnology Co., Ltd., and our competitor namely, Silk Road Birdnest Sdn Bhd, are related by virtue of common management. Notwithstanding the orders that we continue to receive from the said major customers, there can be no assurance that the said major customers will continue to transact with us going forward, and in the event that the said customers reduce or cease ordering from us, our financial performance and future outlook may be adversely affected.

In addition, as our sales are based on sales contract which are negotiated between us and our customer according to their requirements, there can be no assurance that revenue contribution from these major customers will be sustained at the same level in the future. In the event that any reduction in orders from these major customers were to occur in the future, it may adversely affect our financial performance and future outlook.

9.1.3 Our products and operations are subject to regulations and operational protocols governing the EBN industry

As a processor and exporter of RUCEBN, our products and operations are required to meet the requirements imposed or as may be imposed by relevant government authorities from time to time. As a food product for human consumption, we are subject to meeting food safety and hygiene standards, regulations and operational protocols set by relevant government authorities in Malaysia and overseas.

These include obtaining the necessary certifications such as the VHM Certificate from the DVS, GMP Certificate and MeSTI certificate, both from MOH, and the export permit from MAQIS. We are dependent on these certifications to operate and export our RUCEBN products and hence failure to renew these certifications could have an adverse effect on our business operations and financial performance.

These certifications require periodic renewals, of which the conditions may change in the future, or we are unable to comply with the updated terms and conditions in the future. While our Group adheres to current regulations and operational protocols, any changes to these in the future are factors beyond our control. Failure to renew our certifications, prolonged delay or failure in adopting these new protocols, or implementing these changes may adversely affect our business operations and financial performance. There is no assurance that we will continue to be able to renew the VHM Certificate, GMP Certificate, and MeSTI certificate in the future.

9.1.4 Our operations are dependent on availability of bird's nest from our Approved Suppliers

Our business operations are dependent on the consistent supply and availability of bird's nest as our raw materials. Our bird's nests are sourced from our 18 Approved Suppliers that possess the required certifications, such as swiftlet house with identification registration and myGAP certification from DVS. Should these Approved Suppliers fail to renew or have their necessary registrations revoked, it may lead to a shortage of bird's nest if we fail to identify and replace them with other Approved Suppliers. Meanwhile, the entrance of more market players into the EBN industry may also lead to increased competition for the supply of bird's nest, and as a result, we may experience a shortage

9. RISK FACTORS (CONT'D)

of bird's nest from our Approved Suppliers in the event new and/or existing market players source from our Approved Suppliers.

Other risks include where our Approved Suppliers may not be able to provide consistent supply of bird's nests that meet our specifications and quality requirements of raw bird's nests due to factors such as weather conditions. Prolonged disruption in the availability of bird's nest that meet our specifications and quality requirements of raw bird's nests will result in us not having the raw materials for processing into RUCEBN and therefore, have a negative impact on our business operations and financial performance.

9.1.5 Our business may be affected by the spread or outbreak of COVID-19 or any other contagious or virulent diseases

As a result of the Zero-COVID Measures, we had experienced a decline in our export sales to the PRC from RM90.98 million or 18,763kg of RUCEBN in the FYE 2021 to RM67.87 million or 15,075kg of RUCEBN in the FYE 2022. The outbreak of COVID-19 or any other contagious or virulent diseases may potentially affect our business operations. Should any of our employees in our processing facility is infected with COVID-19 or any other contagious or virulent diseases, we may be required to temporarily suspend our operations for purposes of sanitisation and containing the spread of such disease.

Moving forward, if there is a spread or outbreak of COVID-19 or any other contagious or virulent diseases which leads to nationwide restrictions similar to various stages of MCO to curb the spread of such disease, our operations may be temporarily suspended, or we may have to operate with reduced workforce capacity. Such occurrence may result in failure to meet customers' orders in a timely manner, which could lead to cancellation of orders and may result in an adverse effect on our business, financial performance and future prospects.

9.1.6 We have a short operating history and our operations are exposed to operational risk

Our Group has a short operating history, having commenced our operations in January 2017 from two (2) shoplots in Taman Melaka Raya, Melaka. Due to our short operating history, the evaluation of future results of operations and prospects may be challenging. In addition, potential customers may have low awareness of our Company, brand and products.

Our Group operates from a single location, where our processing facility and office are situated, and our operations are exposed to day-to-day operational risks. These include the risk of fire, flood, disruption in supply of utilities, outbreak of diseases and logistics failure, as well as natural disaster, political instability or events that are beyond our control. The occurrence of these risks will cause disruptions to our processing operations and incur additional expenses to restore our processing facility and office. Any prolonged disruption of our operations may adversely affect our business and financial performance. There can be no assurance that our existing operations and its procedures will be adequate to avoid the occurrence of the aforementioned risks.

Our Group has purchased insurance policies to cover a variety of risks that are relevant to our business needs and operations which include fire, flood, burglary, marine cargo and public liability insurance. These insurance policies have specifications and insured limits that we believe are appropriate taking into consideration our risk levels and potential exposure to losses.

9.1.7 We are dependent on our Executive Directors and key senior management

Our Group's success is dependent on the experience, knowledge and network of our Executive Directors and key senior management. Our Group's Non-Independent Executive Director / CEO, Lavernt Chen, has more than 20 years of hand-on experience in the bird's nest industry and has in depth knowledge in various segments of the bird's nest industry's supply chain, from swiftlet farming, processing to trading.

Our key senior management comprise of experienced individuals with relevant experience in the industry, such as our Non-Independent Executive Director / COO, Chin Chee Cheah and Head of Production, Kiew Pei Fang.

9. RISK FACTORS (CONT'D)

We believe that our future success is dependent on the continued service of our Executive Directors and key senior management and our ability to hire, develop, motivate and retain qualified key management personnel to support our operations. The loss of our Executive Directors and key senior management (simultaneously or within a short span of time) without timely replacement may adversely affect our business operation and financial performance.

9.1.8 Price of our products is subject to fluctuations due to demand and supply conditions

The market prices of EBN fluctuate according to the demand and supply conditions.

Demand for EBN is subject to fluctuations caused by factors such as, but not limited to, festive seasons, consumer spending, negative publicity regarding EBN (whether actual or perceived), and food safety related issues. Negative events such as negative publicity regarding EBN (whether actual or perceived), food safety related issues may also adversely affect the demand for EBN and lead to a decline in the price of EBN.

Meanwhile, the supply of EBN is also subject to fluctuations caused by factors such as weather conditions. Weather conditions that are not optimal may affect the quality and specification of raw bird's nests available on the market, which would in turn affect the price of the EBN. In addition, increased entrants of new market players may result in increased production, which could lead to a decrease in prices.

While we may not have control over the fluctuation in prices, we will continue to ensure our products are sourced from Approved Suppliers and processed according to the regulations and standards to ensure that our products meet customers' requirement thereby driving continuous demand for our products.

9.1.9 Our processing operations are dependent on skilled labour

The processing of RUCEBN involves a high degree of manual skill work due to the intricate nature of EBN. Most of the processes conducted are performed manually, such as grading, sorting, trimming and cleaning of EBN and thus, the loss of major skilled workers in our processing operations (simultaneously or within a short span of time) without timely replacement, may adversely affect our business operations and financial performance due to the decrease in our output.

9.1.10 We are exposed to foreign exchange rate fluctuations

Our export sales accounted for approximately 43.03%, 99.58%, 99.38% and 98.55% of our revenue for FYE 2019, FYE 2020, FYE 2021 and FYE 2022, respectively and are predominantly in the RMB. This subjects us to currency exchange rate risks that are affected by a myriad of factors that are beyond our control, which include but are not limited to the political and economic climates of Malaysia and the world. While we hedge our foreign exchange position by entering into forward transactions in RMB, there can be no assurance that the use of such financial instruments will completely eliminate our exposure to adverse foreign currency exchange movements.

For the FY Under Review, we had incurred losses in FYE 2020 of RM0.07 million, FYE 2021 of RM0.01 million and FYE 2022 of RM0.20 million from fluctuations in foreign exchange rates. Notwithstanding this, there is no assurance any future fluctuations in foreign exchange rates will not have any material and adverse impact on our financial performance.

9.2 RISKS RELATING TO OUR INDUSTRY

9.2.1 We are subject to political, social and economic conditions of Malaysia and the PRC

Major changes and development in the political, social and economic conditions in Malaysia or the PRC would adversely affect our business operations as well as the industry. The risks include changes to fiscal and monetary policies, civil unrest, acts of terrorism, riots, changes in political leadership and changes to laws, guidelines and policies. The PRC had in 2011 banned the import of Malaysian EBN into the PRC due to nitrite contamination. The ban was subsequently lifted in 2014. The PRC later imposed a temporary ban on the import of Malaysian EBN into the PRC in 2017, which was lifted in the same year, due to an outbreak of H5N1 avian flu in Kelantan during the year.

9. RISK FACTORS (CONT'D)

Notwithstanding that the bans were lifted and that there are regulations in place to ensure that EBN products imported into the PRC meet the quality requirements, there can be no assurance that there will not be any changes to policies or regulations affecting the import of EBN products into the PRC. In the event that there are unfavourable changes to the policies or regulations, the Group's financial performance and future outlook may be adversely affected. In addition, any prolonged economic slowdown in Malaysia or the PRC, including our export destinations may lead to decreased orders from our customers, which could have an adverse effect on our financial performance and future outlook.

9.2.2 We face competition in the EBN industry

We face competition in the EBN industry in Malaysia, where we compete with other companies offering similar products as well as companies exporting products to the PRC, namely Beho Birdnest Sdn Bhd and Silk Road Birdnest Sdn Bhd. We compete with our competitors in terms of pricing, range and quality of products as well as delivery timeline.

The processing and trading of EBN is a regulated business in Malaysia whereby new players would have to obtain licences, permits, registrations and/or certification from relevant government agencies or competent issuing authority in Malaysia including registering the bird's nest processing plant as a Food Premises with the MOH, registering the bird's nest processing plant with the DVS as well as obtaining the necessary certifications such as the VHM Certificate from the DVS, GMP Certificate and MeSTI certificate, both from MOH.

Further, for companies intending to export EBN to other countries, a Veterinary Health Certificate, a VHM certificate and identification registration from the DVS, and an export permit from MAQIS is generally required. Only companies intending to export EBN to the PRC are further required to obtain approval by the GACC.

Notwithstanding the aforementioned factors may be regarded as barriers for new players entering the EBN industry, there can be no assurance that such barriers to entry will prevent new players from entering the industry and becoming our competitors in the future.

While we strive to remain competitive by leveraging on our competitive strengths, there is no assurance that any change in the EBN industry, which includes but not limited to the entrance of new competitors, changes in customers' preferences and demand, would not have any material and adverse impact on our business and financial performance.

9.3 RISKS RELATING TO INVESTMENT IN OUR SHARES

9.3.1 The offering of our Shares may not result in an active liquid market for our Shares

Prior to our Listing, there has been no public market for our Shares. Hence our Listing does not guarantee that it will develop an active market for the trading of our Shares, or if developed, such market can be sustained.

The IPO Price has been determined after taking into consideration a number of factors, including but not limited to, our Group's financial performance, operating history and condition, the prospects of our Group and the industry in which our Group operates, and the prevailing market conditions.

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

As such, the price at which our Shares will trade on the ACE Market is dependent on market forces beyond our control.

There is also no assurance as to the liquidity of the market that may develop for our Shares, the ability of holders to sell our Shares or the prices at which holders would be able to sell our Shares.

9. RISK FACTORS (CONT'D)

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

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

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

9.3.3 We may not be able to declare dividends to our shareholders

Our Group's ability to pay dividends to our shareholders is dependent on, amongst others, our future financial performance, cash flow positions, capital requirements as well as the implementation of our business plans. Our ability to pay dividends to our shareholders may be affected should these factors deteriorate and as such, there can be no assurance that we will be able to pay dividends to our shareholders. In addition, dividends are not guaranteed and our Board, at its discretion, may decide not to pay dividends at any time and for any reasons. If we do not pay our shareholders dividends, or if the dividends paid are lower compared to levels anticipated by our investors, the market price of our Shares may be negatively affected, reducing the value of any investment in our Shares.

9.3.4 Our Listing may be delayed or aborted

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

- (i) we are unable to meet the public shareholding spread requirements under the Listing Requirements, where at least 25% of our total number of Shares for which listing is sought must be held by a minimum number of 200 public shareholders, with each holding not less than 100 Shares at the point of our Listing;
- (ii) our Sole Underwriter exercising its rights under the Underwriting Agreement to discharge itself from its obligation therein; and
- (iii) revocation of approvals from relevant authorities for our Listing.

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

If our Listing is aborted and our Shares have been allotted to the investors, the return of monies to investors could only be achieved by way of cancellation of share capital as provided under Section 116 or Section 117 of the Act and its related rules. Such cancellation requires, among others, the sanction of our shareholders by special resolution in a general meeting and consent of our creditors (if required). There can be no assurance that such monies can be recovered within a short period of time in such circumstances.

9.3.5 Significant influence by our Promoters

Upon Listing, our Promoters will collectively hold an aggregate 288,000,000 Shares, representing 74.61% of our enlarged issued share capital. As a result, our Promoters will likely influence the outcome of certain matters which require the vote of our shareholders, unless they and persons connected with them are abstained from voting, either by law, relevant guidelines or regulations. As such, there exists a risk of non-alignment of interests by our Promoters with those of our other shareholders.

10. RELATED PARTY TRANSACTIONS

10.1 RELATED PARTY TRANSACTIONS

Save as disclosed below, there is no other related party transaction, existing or proposed, entered or to be entered into by our Group which involves the interest, direct or indirect, of our Directors, substantial shareholders and/or persons connected with them for the FY Under Review and the subsequent period up to the LPD:

No.	Transacting parties	Interested person / Related party	Nature of relationship	Nature of transaction	FYE 2019		FYE 2020		FYE 2021		FYE 2022		1 January 2023 and up to the LPD
					RM'000/%	RM'000/%	RM'000/%	RM'000/%	RM'000/%	RM'000/%	RM'000/%		
1.	<u>Landlord:</u> CVW Ventures	Lavernt Chen	<ul style="list-style-type: none"> Lavernt Chen is our Non-Independent Executive Director, substantial shareholder and Promoter. Lavernt Chen was the director and substantial shareholder of CVW Ventures from 17 November 2005 to 6 December 2021. 	Rental of the following properties by MBN Enterprise as tenant and CVW Ventures as the landlord via tenancy agreement dated 5 April 2017: <ul style="list-style-type: none"> Unit 17; and Unit 19. The tenancy agreement was terminated upon the completion of the acquisition of Unit 17 and Unit 19 by MBN Enterprise on 16 July 2020. ⁽¹⁾	48 /	7.72% of our Group's administrative expense	24 /	2.17% of our Group's administrative expense	-	-	-	-	

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Interested person / Related party	Nature of relationship	Nature of transaction	FYE 2019 RM'000/%	FYE 2020 RM'000/%	FYE 2021 RM'000/%	FYE 2022 RM'000/%	1 January 2023 and up to the LPD RM'000/%
2.	Vendor: CVW Ventures Purchaser: MBN Enterprise	Lavernt Chen	<ul style="list-style-type: none"> • Lavernt Chen is our Non-Independent Executive Director, substantial shareholder and Promoter. • Lavernt Chen was the director and substantial shareholder of CVW Ventures from 17 November 2005 to 6 December 2021. 	<p>Sale and purchase of the following properties by MBN Enterprise as purchaser and CVW Ventures as the vendor:</p> <ul style="list-style-type: none"> • Unit 17; and • Unit 19. <p>The sale and purchase agreement was entered between the parties on 15 July 2019 and the acquisition was completed on 16 July 2020. ⁽²⁾</p>	-	<p style="text-align: center;">1,060 / 100.00% of the additional ROU asset of our Group during the year</p>	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Interested person / Related party	Nature of relationship	Nature of transaction	FYE 2019	FYE 2020	FYE 2021	FYE 2022	1 January 2023 and up to the LPD
3.	<p><u>Seller:</u> CVW Ventures</p> <p><u>Purchaser:</u> MBN Enterprise</p>	Lavernt Chen	<ul style="list-style-type: none"> Lavernt Chen is our Non-Independent Executive Director, substantial shareholder and Promoter. Lavernt Chen was the director and substantial shareholder of CVW Ventures from 17 November 2005 to 6 December 2021. 	<p>Purchase of raw bird's nests by MBN Enterprise from CVW Ventures⁽³⁾</p>	2,953 / 23.79% of our Group's purchase cost	4,665 / 11.94% of our Group's purchase cost	98 / 0.12% of our Group's purchase cost	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Interested person / Related party	Nature of relationship	Nature of transaction	1 January 2023 and up to the LPD			
					FYE 2019	FYE 2020	FYE 2021	FYE 2022
					RM'000 / %	RM'000 / %	RM'000 / %	RM'000 / %
4.	<p><u>Seller:</u> MBN Enterprise</p> <p><u>Purchaser:</u> CVW Ventures</p>	Lavernt Chen	<ul style="list-style-type: none"> Lavernt Chen is our Non-Independent Executive Director, substantial shareholder and Promoter. Lavernt Chen was the director and substantial shareholder of CVW Ventures from 17 November 2005 to 6 December 2021. 	<p>Sales of bird's nest fragment or crumbs by MBN Enterprise to CVW Ventures ⁽⁴⁾</p>	3,227 / 27.12% of our Group's revenue	186 / 0.42% of our Group's revenue	572 / 0.62% of our Group's revenue	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Interested person / Related party	Nature of relationship	Nature of transaction	FYE 2019	FYE 2020	FYE 2021	FYE 2022	1 January
									2023 and up to the LPD
					RM'000 / %	RM'000 / %	RM'000 / %	RM'000 / %	RM'000 / %
5.	<p><u>Seller:</u> Nanyang Excel Sdn Bhd</p> <p><u>Purchaser:</u> MBN Enterprise</p>	Lavertm Chen and Hew Hong Thee	<ul style="list-style-type: none"> Lavertm Chen is our Non-Independent Executive Director, substantial shareholder and Promoter. Lavertm Chen was the director of Nanyang Excel Sdn Bhd from 14 November 2005 to 30 September 2021 and shareholder from 14 November 2005 to 11 November 2021. Chen WenBiao is a brother of Lavertm Chen. He is the director and shareholder of Nanyang Excel Sdn Bhd. Hew Hong Thee is our substantial shareholder and the mother to Lavertm Chen. She is also the director and substantial shareholder of Nanyang Excel Sdn Bhd. 	<p>Purchase of raw bird's nests by MBN Enterprise from Nanyang Excel Sdn Bhd⁽⁵⁾</p>	465 / 3.75% of our Group's purchase cost	4,739 / 12.12% of our Group's purchase cost	4,635 / 5.73% of our Group's purchase cost	1,169 / 2.07% of our Group's purchase cost	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Interested person / Related party	Nature of relationship	Nature of transaction	FYE 2019 RM'000 / %	FYE 2020 RM'000 / %	FYE 2021 RM'000 / %	FYE 2022 RM'000 / %	1 January 2023 and up to the LPD RM'000 / %	
6.	<p><u>Seller:</u> MBN Enterprise</p> <p><u>Purchaser:</u> Multiform Food Supply Co Sdn Bhd</p>	Lavernt Chen	<ul style="list-style-type: none"> Lavernt Chen is our Non-Executive Director, substantial shareholder and Promoter. Lavernt Chen was a director of Multiform Food Supply Co Sdn. Bhd from 14 November 2011 to 8 August 2012. Chen Joon Onn is the father to Lavernt Chen, was a shareholder and director of Multiform Food Supply Co Sdn Bhd from 3 September 2004 to 1 April 2022. Chen WenBiao is a brother of Lavernt Chen. He was the shareholder of Multiform Food Supply Co Sdn Bhd. He disposed of his shares on 16 March 2022. Hew Hong Thee is our substantial shareholder and the mother to Lavernt Chen. She was a director of Multiform Food Supply Co Sdn Bhd from 3 September 2004 to 14 November 2011. 	<p>One off sales of raw bird's nests by MBN Enterprise to Multiform Food Supply Co Sdn Bhd^(e)</p>	36 /	-	-	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Interested person / Related party	Nature of relationship	Nature of transaction	FYE 2019 RM'000/%	FYE 2020 RM'000/%	FYE 2021 RM'000/%	FYE 2022 RM'000/%	1 January 2023 and up to the LPD RM'000 / %
7.	<p><u>Seller:</u> Lee Wei Kong and his spouse</p> <p><u>Purchaser:</u> MBN Enterprise</p>	<p>Lee Wei Kong</p> <p>Wei Kong</p>	<p>Lee Wei Kong is our Non-Independent Non-Executive Director, substantial shareholder and Promoter.</p>	<p>Purchase of raw bird's nests by MBN Enterprise from Lee Wei Kong and his spouse ⁽⁷⁾</p>	<p>-</p>	<p>619 / 1.58% of our Group's purchase cost</p>	<p>-</p>	<p>-</p>	<p>-</p>
8.	<p><u>Service provider:</u> MLCL Construction</p> <p><u>Customer:</u> MBN Enterprise</p>	<p>Liw Chong Liong</p>	<ul style="list-style-type: none"> • Liw Chong Liong is our Non-Independent Non-Executive Director, substantial shareholder and Promoter. • MLCL Construction is our substantial shareholder and Promoter. • Liw Chong Liong is the director and substantial shareholder of MLCL Construction. 	<p>Renovation services provided by MLCL Construction to MBN Enterprise for our processing facility and collection centre ⁽⁸⁾</p>	<p>5 / 3.27% of the addition PPE of our Group during the year</p>	<p>6 / 0.89% of the addition PPE of our Group during the year</p>	<p>8 / 0.90% of the addition PPE of our Group during the year</p>	<p>-</p>	<p>-</p>

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Interested person / Related party	Nature of relationship	Nature of transaction	FYE 2019		FYE 2020		FYE 2021		FYE 2022		1 January 2023 up to the LPD	
					RM'000/%		RM'000/%		RM'000/%		RM'000/%		RM'000/%	
9.	<u>Seller:</u> Lavernt Chen <u>Purchaser:</u> MBN Enterprise	Lavernt Chen	Lavernt Chen is our Non-Independent Executive Director, substantial shareholder and Promoter.	Lavernt Chen has sold a motor vehicle to MBN Enterprise for office use ⁽⁹⁾	-	6 /	0.89% of the addition PPE of our Group during the year	-	-	-	-	-	-	-
10.	<u>Service provider:</u> Dato' Dr. Rosini binti Alias <u>Customer:</u> MBN Enterprise	Dr. Rosini binti Alias	Dato' Dr. Rosini binti Alias is our Independent Non-Executive Director.	Consultancy services provided by Dato' Dr. Rosini binti Alias to MBN Enterprise for matters relating to VHM Certification and DVS requirements as and when such service is required ⁽¹⁰⁾	-	36 /	3.26% of our Group's administrative expense	-	27 /	1.24% of our Group's administrative expense	-	-	-	-
11.	<u>Service provider:</u> CPL Consultancy Services Sdn Bhd <u>Customer:</u> MBN Enterprise	Chin Peck Li	<ul style="list-style-type: none"> • Chin Peck Li is our Independent Non-Executive Director. • Chin Peck Li is a director and substantial shareholder of CPL Consultancy Services Sdn Bhd. 	Professional services rendered by CPL Consultancy Services Sdn Bhd to MBN Enterprise, for reviewing of MBN Enterprise's monthly accounts ⁽¹¹⁾	-	12 /	1.09% of our Group's administrative expense	-	12 /	0.55% of our Group's administrative expense	-	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Interested person / Related party	Nature of relationship	Nature of transaction	FYE 2019		FYE 2020		FYE 2021		FYE 2022		1 January 2023 and up to the LPD	
					RM'000 / %		RM'000 / %		RM'000 / %		RM'000 / %		RM'000 / %	
12.	<u>Service provider:</u> Messrs Andrew T.S Goh & Khairil	Goh Ling Wen	<ul style="list-style-type: none"> Goh Wen Ling is our Independent Non-Executive Director. Goh Wen Ling is a partner in a legal firm known as Messrs Andrew T.S Goh & Khairil. 	<p>Legal services provided to MBN Enterprise in relation to the preparation of the following legal documents (12):-</p> <ul style="list-style-type: none"> loan documentation for Unit 21 for FYE 2019 tenancy agreement for Units 28,28-1 and 28-2, Jalan Melaka Raya 26, Taman Melaka Raya, 75000 Melaka ("Unit 28") for FYE 2020 (no longer renting) loan documentation for Unit 25 and the sale and purchase of properties known as Unit 23 and Unit 25, whereby Messrs Andrew T.S Goh & Khairil is solicitors acting for MBN Enterprise for FYE 2021 	0.48%	3 /	0.03%	0.35 /	0.46%	10 /	0.41%	15 /		

10. RELATED PARTY TRANSACTIONS (CONT'D)

No.	Transacting parties	Interested person / Related party	Nature of relationship	Nature of transaction	FYE 2019		FYE 2020		FYE 2021		FYE 2022		1 January 2023 and up to the LPD	
					RM'000	%	RM'000	%	RM'000	%	RM'000	%	RM'000	%
13.	<p><u>Landlord:</u> Goh Tyau Soon, Goh Wen Ling & Khairil Aznan Bin Azizi (holding in trust for Messrs Andrew T.S Goh & Khairil)</p> <p><u>Tenant:</u> MBN Enterprise</p>	Goh Wen Ling	<ul style="list-style-type: none"> Goh Wen Ling is our Independent Non-Executive Director Goh Wen Ling is a partner in a legal firm known as Messrs Andrew T.S Goh & Khairil 	<ul style="list-style-type: none"> Rental of the third (3rd) floor of Unit 28 (known as Unit 28-2) from 1 July 2020 to 30 November 2020 which is used for temporary storage ⁽¹³⁾ Rental for Unit 28 (known as Unit 28, Unit 28-1 and Unit 28-2) from 1 December 2020 to 31 August 2021 which is used for temporary storage ⁽¹³⁾ 	-	-	2 / 0.18%	of our Group's administrative expense	16 / 0.74%	of our Group's administrative expense	-	-	-	-

Notes:

- (1) MBN Enterprise entered into a tenancy agreement dated 5 April 2017 with CVW Ventures for the rental of Unit 17 and Unit 19 for a period commencing from 1 April 2017 to 31 March 2019 with the option to renew for another period of 2-year which was subsequently terminated on 16 July 2020. The monthly rental was RM4,000.00 (approximately RM0.67 per sq. feet). Based on comparable properties, the range of monthly market rental rate is between RM1.47 to RM1.79 per sq. feet. As such, the monthly rental rate paid by MBN Enterprise to CVW Ventures of RM0.67 per sq. feet, which is below the market rental rate is not unfavourable to MBN Enterprise.
- (2) MBN Enterprise entered into a sale and purchase agreement dated 15 July 2019 with CVW Ventures for the purchase of Unit 17 and Unit 19 with a total purchase consideration of RM1,060,000. Based on the valuation report prepared by an independent valuer, the market value was RM1,200,000. As such, the purchase consideration paid by MBN Enterprise to CVW Ventures of RM1,060,000, which is below the market value is not unfavourable to MBN Enterprise.
- (3) MBN Enterprise purchased raw bird's nests from CVW Ventures. However, our Group has ceased to purchase raw bird's nests from CVW Ventures since February 2021. The purchase price of raw bird's nests from CVW Ventures is transacted on an arms' length basis and is based on normal commercial terms as the purchase price was charged based on the normal range of purchase price of the Group from other Approved Suppliers.

10. RELATED PARTY TRANSACTIONS (CONT'D)

- (4) *MBN Enterprise supplied raw bird's nest fragments or crumbs to CVW Ventures. Our Group has ceased to supply raw bird's nest fragments or crumbs to CVW Ventures since November 2021. The selling price of raw bird's nest fragments or crumbs to CVW Ventures is transacted on an arms' length basis and is based on normal commercial terms as the selling price was charged based on the normal range of selling price of the Group to other customers.*
- (5) *Lavert Chen has resigned as a director of Nanyang Excel Sdn Bhd since September 2021 and disposed of his interest in Nanyang Excel Sdn Bhd in November 2021 to his brother, Chen WenBiao. MBN Enterprise purchased raw bird's nests from Nanyang Excel Sdn Bhd. Our Group has ceased to obtain supply of raw bird's nests from Nanyang Excel Sdn Bhd since April 2022. The purchase price of raw bird's nests from Nanyang Excel Sdn Bhd is transacted on an arms' length basis and is based on normal commercial terms as the purchase price was charged based on the normal range of purchase price of the Group from other Approved Suppliers.*
- (6) *MBN Enterprise supplied raw bird's nests to Multiform Food Supply Co Sdn Bhd. Our Group has ceased to supply raw bird's nests to Multiform Food Supply Co Sdn Bhd since August 2019. The selling price of raw bird's nests to Multiform Food Supply Co Sdn Bhd is transacted on an arms' length basis and is based on normal commercial terms as the selling price was charged based on the normal range of selling price of the Group to other customers.*
- (7) *MBN Enterprise obtained the supply of raw bird's nests from Lee Wei Kong and his spouse. Our Group has ceased to obtain the supply of raw bird's nests from Lee Wei Kong and his spouse since November 2020. The purchase price of raw bird's nests from Lee Wei Kong and his spouse is transacted on an arms' length basis and is based on normal commercial terms as the purchase price was charged based on the normal range of purchase price of the Group from other Approved Suppliers.*
- (8) *MBN Enterprise engaged renovation services provided by MLCL Construction. Our Group has ceased to engage renovation services from MLCL Construction since October 2021. The cost of the renovation services provided by MLCL Construction to MBN Enterprise is transacted on an arms' length basis and is based on normal commercial terms as the fees charged by MLCL Construction were comparable with the rates quoted by other construction companies.*
- (9) *MBN Enterprise has purchased a motor vehicle from Lavert Chen for office use. The purchase consideration is segregated into the price of the motor vehicle and the vehicle plate number which consists of letters "MBN". The purchase consideration of the motor vehicle was based on the prevailing market price and the purchase consideration of the vehicle plate number that consist of letters "MBN" was based on the original cost purchased by Lavert Chen.*
- (10) *MBN Enterprise engaged consultancy services from Dato' Dr. Rosini binti Alias prior to her appointment as our Independent Non-Executive Director. The cost of the consultancy services charged by Dato' Dr. Rosini binti Alias is transacted on an arms' length basis and is based on normal commercial terms as the fees were charged based on the prevailing market rates.*
- (11) *MBN Enterprise engaged professional services from CPL Consultancy Services Sdn Bhd prior to Chin Peck Li's appointment as our Independent Non-Executive Director. The cost of the professional services charged by CPL Consultancy Services Sdn Bhd is transacted on an arms' length basis and is based on normal commercial terms as the fees were charged based on the prevailing market rates.*
- (12) *MBN Enterprise engaged legal services from Messrs Andrew T.S Goh & Khairil prior to Goh Wen Ling's appointment as our Independent Non-Executive Director. The cost of the legal services fees charged by Messrs Andrew T.S Goh & Khairil is transacted on an arms' length basis and is based on normal commercial terms as the fees were charged based on the prevailing market rates.*
- (13) *MBN Enterprise entered into a tenancy agreement dated 24 September 2020 with Goh Wen Ling and two (2) other non-related parties (being the partners of Messrs Andrew T.S Goh & Khairil) for the rental of the third (3rd) floor of Unit 28 (known as Unit 28-2) from 1 July 2020 to 30 November 2020, at the monthly rental rate of RM300 (approximately RM0.30 per sq. feet). Based on comparable properties, the range of monthly market rental rate is between RM1.47 to RM1.79 per sq. feet. As such, the monthly rental rates paid by MBN Enterprise to Messrs Andrew T.S Goh & Khairil of RM0.30 per sq. feet, which is below the market rental rate is not unfavourable to MBN Enterprise. Subsequently, MBN Enterprise entered into a revised tenancy agreement dated 10 December 2020 with Goh Wen Ling and two (2) other non-related parties (being the partners*

10. RELATED PARTY TRANSACTIONS (CONT'D)

of Messrs Andrew T.S Goh & Khairil) for the rental of all three (3) floors of Unit 28 from 1 December 2020 to 31 August 2021. The tenancy was subsequently terminated on 31 August 2021. The monthly rental rate was RM2,000 (approximately RM0.67 per sq. feet). Based on comparable properties, the range of monthly market rental rate is between RM1.47 to RM1.79 per sq. feet. As such, the monthly rental rates paid by MBN Enterprise to Messrs Andrew T.S Goh & Khairil of RM0.67 per sq. feet, which is below the market rental rate is not unfavourable to MBN Enterprise.

Our Board (save for the Interested Directors) has reviewed all the related party transactions set out above and is of the view that save for the rental of Unit 17 and Unit 19 between MBN Enterprise and CVW Ventures (as listed in item 1 in the table above), acquisition of Unit 17 and Unit 19 by MBN Enterprise from CVW Ventures (as listed in item 2 in the table above) and rental of Unit 28 between MBN Enterprise, Goh Wen Ling and two (2) other non-related parties (being the partners of Messrs Andrew T.S Goh & Khairil) (as listed in item 13 in the table above), the abovementioned transactions were carried out in the best interest of our Company and transacted on an arm's length basis and based on normal commercial terms which are not more favourable to the related party and are not to the detriment 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, substantial 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, the Audit and Risk Management 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 based on normal commercial 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.

Notwithstanding the above, our Group has ceased to obtain supply of raw bird's nests from our related parties since April 2022.

10. RELATED PARTY TRANSACTIONS (CONT'D)

10.2 RELATED PARTY TRANSACTIONS THAT ARE UNUSUAL IN NATURE OR CONDITION

Our Directors have confirmed that there are no transactions that were unusual in its nature or condition, involving goods, services, tangible or intangible assets, to which we were a party in respect of the FY Under Review and up to the LPD.

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

Our Directors have confirmed that there is no loan (including guarantees of any kind) and / or financial assistance made by us to or for the benefit of related parties for the FY Under Review and up to the LPD.

10.4 LOANS AND/OR FINANCIAL ASSISTANCE FROM RELATED PARTIES TO OUR GROUP

The following table sets out the loans (including guarantees of any kind) and/or financial assistance from related parties to us for the FY Under Review and as at the LPD:

Transacting parties	Nature of transaction and purpose	Outstanding amount				
		As at 31 December			As at the LPD	
		2019 RM'000	2020 RM'000	2021 RM'000	2022 RM'000	RM'000
1. Lavernt Chen and Liw Chong Liong	Lavernt Chen and Liw Chong Liong had given personal joint and several guarantees as the directors of MBN Enterprise, in favour of CIMB Bank Berhad for the facility granted in the sum of RM400,000.00. The facility obtained is for working capital purposes. The facility amount has been fully paid off.	-	400	352	-	-
2. Lavernt Chen and Liw Chong Liong	Lavernt Chen and Liw Chong Liong had given personal joint and several guarantees as the directors of MBN Enterprise, in favour of CIMB Islamic Bank Berhad for the facility granted in the sum of RM540,000.00. The facility obtained is for working capital purposes. On 22 December 2022, the personal joint and several guarantees have been duly released and discharged with MBN Enterprise settling the amount as imposed by CIMB Islamic Bank Berhad under its consent letter dated 2 November 2022.	540	534	515	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of transaction and purpose	Outstanding amount					As at the LPD RM'000
		As at 31 December			2022 RM'000	2021 RM'000	
		2019 RM'000	2020 RM'000	2021 RM'000			
3. Lavernt Chen, Liw Chong Liong and Lee Wei Kong	<p>Lavernt Chen, Liw Chong Liong and Lee Wei Kong had given personal joint and several guarantees, as the directors of MBN Enterprise in favour of United Overseas Bank (Malaysia) Berhad for the facility granted in the sum of RM2,926,235.00. The facility obtained is for the purposes as follows ⁽¹⁾:-</p> <p>(a) to partly finance the purchase of Unit 17 and Unit 19; (b) to finance the local purchases and imports; and (c) to hedge for foreign currency exposure in any approved currencies arising from any underlying trade and/or financial transaction.</p>	114	1,022	1,917	2,469	2,474	
4. Lavernt Chen, Liw Chong Liong and Lee Wei Kong	<p>Lavernt Chen, Liw Chong Liong and Lee Wei Kong had given personal joint and several guarantees, as the directors of MBN Enterprise in favour of Alliance Bank (Malaysia) Berhad for the facility granted in the sum of RM2,747,000.00 for the purposes of ⁽¹⁾:-</p> <p>(a) to partly finance the purchase of Unit 25; (b) to hedge against foreign exchange risk of trade related or any approved transactions for which foreign currency payments are expected to be made or received by MBN Enterprise; and (c) to finance for the purchase of goods in relation to the Group's normal business operations.</p>	-	-	738	1,560	2,200	

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of transaction and purpose	Outstanding amount					As at the LPD RM'000
		As at 31 December					
		2019 RM'000	2020 RM'000	2021 RM'000	2022 RM'000		
5. Liw Chong Liong	Liw Chong Liong is a director and shareholder of MBN Enterprise has provided a shareholder's advance to MBN Enterprise to facilitate the business expansion / working capital to procure more raw bird's nests to cater for the demand from our PRC customers. The advance provided is free from interest. ⁽²⁾	375	375	-	-	-	-
6. Lee Wei Kong	Lee Wei Kong is a director and shareholder of our Group has provided a shareholder's advance to MBN Enterprise to facilitate the business expansion / working capital to procure more raw bird's nests to cater for the demand from our PRC customers. The advance provided is free from interest. ⁽²⁾	375	375	-	-	-	-
7. CVW Ventures	CVW Ventures was previously a shareholder of MBN Enterprise and has provided a shareholder's advance to MBN Enterprise to facilitate the business expansion / working capital to procure more raw bird's nests to cater for the demand from our PRC customers. The advance provided is free from interest. ⁽²⁾ Lavernt Chen was the director and substantial shareholder of CVW Ventures from 17 November 2005 to 6 December 2021.	1,101	1,125	-	-	-	-

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10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of transaction and purpose	Outstanding amount					As at the LPD RM'000
		As at 31 December					
		2019 RM'000	2020 RM'000	2021 RM'000	2022 RM'000		
8. CVW Ventures	<p>Corporate guarantee provided by CVW Ventures to MBN Enterprise for the loan facilities granted by CIMB Bank Berhad. The facility amount has been fully paid off.</p> <p>Lavernt Chen was the director and substantial shareholder of CVW Ventures from 17 November 2005 to 6 December 2021.</p>	-	400	352	-	-	-
9. CVW Ventures	<p>Corporate guarantee provided by CVW Ventures to MBN Enterprise for the loan facilities granted by CIMB Islamic Bank Berhad. The corporate guarantee has been duly discharged by way of substitution of a new corporate guarantee executed by MYMBN on 30 May 2023.</p> <p>Lavernt Chen was the director and substantial shareholder of CVW Ventures from 17 November 2005 to 6 December 2021.</p>	540	534	515	376	-	-
10. CVW Ventures	<p>Corporate guarantee provided by CVW Ventures to MBN Enterprise for the loan facilities granted by Alliance Bank Malaysia Berhad. Alliance Bank Malaysia Berhad has agreed to release CVW Ventures as a corporate guarantor via its letter of offer dated 23 June 2022.</p> <p>Lavernt Chen was the director and substantial shareholder of CVW Ventures from 17 November 2005 to 6 December 2021.</p>	-	-	747	-	-	-

10. RELATED PARTY TRANSACTIONS (CONT'D)

Transacting parties	Nature of transaction and purpose	Outstanding amount					As at the LPD RM'000
		As at 31 December			2022		
		2019 RM'000	2020 RM'000	2021 RM'000	RM'000		
11. MLCL Construction	MLCL Construction is a shareholder of MBN Enterprise and has provided a shareholder's advance to MBN Enterprise to facilitate the business expansion / working capital to procure more raw bird's nests to cater for the demand from our PRC customers. The advance provided is free from interest. ⁽²⁾	375	375	-	-	-	-
12. Gentle Rainbow	Gentle Rainbow is a shareholder of MBN Enterprise and has provided a shareholder's advance to MBN Enterprise to facilitate the business expansion / working capital to procure more raw bird's nests to cater for the demand from our PRC customers. The advance provided is free from interest. ⁽²⁾	250	250	-	-	-	-
13. Nanyang Excel Sdn Bhd	Nanyang Excel Sdn Bhd is a related company to our Promoter and substantial shareholder, where Hew Hong Thee, is a director and substantial shareholder in Nanyang Excel Sdn Bhd. She is also mother of Lavernt Chen, our Non-Independent Executive Director and CEO. The advance from Nanyang Excel Sdn Bhd to MBN Enterprise is to facilitate the business expansion / working capital to procure more raw bird's nests to cater for the demand from our PRC customers. The advance provided is free from interest. ⁽²⁾	-	450	-	-	-	-

Notes:

(1) We have sought consent from our financiers on 4 July 2022 for the release and discharge of all personal joint and several guarantees provided by our Directors, namely Lavernt Chen, Liew Chong Liang and Lee Wei Kong (under Nos. 2 to 4 of the table above) and be replaced with our Company's corporate guarantee, upon successful Listing of our Company. As at the LPD, our Group has received approvals in principle from the following financiers:

10. RELATED PARTY TRANSACTIONS (CONT'D)

- (i) Alliance Bank Malaysia Berhad via its revised letter of offer dated 10 January 2023; and
(ii) United Overseas Bank (Malaysia) Berhad vide its supplementary letter of offer dated 23 August 2022,
which subject to the conditions, amongst others, that we substitute the same with the corporate guarantee from our Company, upon successful Listing of our Company.

(2) The advances by the respective parties to our Group are interest-free and therefore not on an arm's length basis and not on normal commercial terms. Our Directors are of the opinion that these advances are not unfavourable to our Group.

Moving forward, the Audit and Risk Management Committee will review the terms of any future loans and/or financial assistance from related parties to our Group and ensure that these transactions are carried out on an arm's length basis and on commercial terms which are not more favourable to the related parties than those generally available to third parties and not unfavourable to our Group, and are not detrimental to our minority shareholders as well as in compliance with the Listing Requirements.

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10. RELATED PARTY TRANSACTIONS (CONT'D)

10.5 MONITORING AND OVERSIGHT OF RELATED PARTY TRANSACTIONS AND CONFLICT OF INTERESTS**10.5.1 Audit and Risk Management Committee review**

Our Audit and Risk Management Committee assesses the financial risk and matters relating to related party transactions and conflict of interests situation that may arise within our Company or Group including any transaction, procedure or course of conduct that raises questions of management integrity. Our Audit and Risk Management Committee maintains and periodically reviews the adequacy of the procedures and processes set by our Group to monitor related party transactions and conflict of interests. It also sets the procedures and processes to ensure that transactions are carried out in the best interest of our Group on normal commercial terms that are industry norms and not more favourable to the related party than those generally available to third parties dealing at arm's length basis, and are not to the detriment to the interest of our Company's minority shareholders. Amongst others, the related parties and parties who are in a position of conflict with the interest of our Group will be required to abstain from deliberations on the transactions.

Any reviews on the related party transactions by our Audit and Risk Management Committee are reported to our Board for its further deliberation.

10.5.2 Our Group's policy on related party transactions and conflict of interests

It is the policy of our Group that all related party transactions and conflict of interests must be immediately and fully disclosed by our interested or conflicted Directors or substantial shareholders to the management for reporting to our Audit and Risk Management Committee. Any related party transactions must be reviewed by our Audit and Risk Management Committee to ensure that they are negotiated and agreed upon in the best interest of our Company on an arm's length basis, and are based on normal commercial terms not more favourable to the related party than those generally available to third parties, and are not to the detriment to the interest of our Company's minority shareholders.

In addition, in line with the Listing Requirements and Malaysian Code on Corporate Governance and the Corporate Governance Guide, our Directors are required to make an annual disclosure of any related party transactions and conflict of interests with our Group and our Audit and Risk Management Committee must carry out an annual assessment of our Directors which include an assessment of such related party transactions and / or conflict of interest. Our Audit and Risk Management Committee will in turn report to our Board after their evaluation and assessment and make the appropriate recommendations to our Board.

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11. CONFLICT OF INTERESTS

11.1 INTEREST IN ENTITIES CARRYING ON A SIMILAR TRADE OR CUSTOMERS OR SUPPLIERS OF OUR GROUP

As at the LPD, save as set out below, none of our Directors or substantial shareholders has any direct or indirect interest in any entity which is carrying on a similar trade as our Group or is a customer or supplier of our Group:

No.	Companies	Principal activity	Nature	Interested directors and / or substantial shareholders	Nature of interest in the entity
1.	Bestgen Food Sdn Bhd	Processing, packaging and trading of bird's nest	<ul style="list-style-type: none"> • Company related to our Promoter, Non-Independent Executive Director and substantial shareholder • Similar to our Group by supplying RUCBEN. 	Lavernt Chen	Lavernt Chen, our Promoter, Non-Independent Executive Director / CEO and substantial shareholder, was a director and shareholder of Bestgen Food Sdn Bhd holding 45% in Bestgen Food Sdn Bhd.
2.	Southern Sea Company Limited <i>(a company incorporated under the laws of Hong Kong and dissolved on 9 December 2022)</i>	Trading of swiftlet bird's nest.	<ul style="list-style-type: none"> • Company related to our Promoter, Non-Independent Executive Director and substantial shareholder • Similar to our Group by supplying RUCBEN. 	Lavernt Chen	<p>He resigned as a director on 11 January 2018. He disposed of his shareholding in Bestgen Food Sdn Bhd on 30 August 2021 and 30 September 2021⁽¹⁾.</p> <p>Lavernt Chen, our Promoter, Non-Independent Executive Director / CEO and substantial shareholder, was the director and shareholder of Southern Sea Company Limited.</p>

Note:

(1) The shareholdings of Lavernt Chen in Bestgen Food Sdn Bhd were disposed to persons who are non-related to him.

11. CONFLICT OF INTERESTS (CONT'D)

Our Board is of the view that the interests of Lavernt Chen in the companies stated above do not give rise to a conflict of interest situation based on the following:

(i) Bestgen Food Sdn Bhd

Bestgen Food Sdn Bhd has no transaction with our Group during FY Under Review and up to the LPD.

Lavernt Chen has resigned as a director of Bestgen Food Sdn Bhd since 11 January 2018 and disposed of his entire interests in Bestgen Food Sdn Bhd on 30 August 2021 and 30 September 2021 to persons who are non-related to him. Therefore, it would not give rise to a conflict of interest situation.

(ii) Southern Sea Company Limited

Southern Sea Company Limited has no transactions with our Group during FY Under Review and up to the LPD.

On 16 June 2022, Southern Sea Company Limited has submitted and lodged an application for deregistration of the company to the Inland Revenue Department, Hong Kong and Hong Kong's Companies Registry. Southern Sea Company Limited has been dormant since 30 December 2020 and dissolved on 9 December 2022.

11.2 MONITORING AND OVERSIGHT OF CONFLICT OF INTERESTS

It is our Directors' fiduciary duty to avoid any conflict of interest situation, and they are required to attend course(s) which provide them with relevant guidelines in respect of their fiduciary duties.

In order to mitigate any possible conflict of interest situation in the future, our Non-Independent Executive Directors, Promoters and substantial shareholders (namely Lavernt Chen, Chin Chee Cheah, Liw Chong Liong, Lee Wei Kong, MLCL Construction and Gentle Rainbow) have voluntarily provided with their statutory declarations to our Company that they will not engage, directly or indirectly, in any business or venture into any potential businesses in connection with bird's nest midstream and downstream businesses, which may be in competition with our Group or any part thereof in Malaysia or in any other country in which our Group operates or intends to operate in.

Our Non-Independent Executive Directors, Promoters and substantial shareholders (namely Lavernt Chen, Chin Chee Cheah, Liw Chong Liong, Lee Wei Kong, MLCL Construction and Gentle Rainbow) will declare to our Audit and Risk Management Committee of their respective interests in other companies if any, and as and when there are changes in their respective interest in companies outside our Group including any potential conflict of interest situation, on a quarterly basis.

In the event of any conflict of interest situation arises, the Audit and Risk Management Committee will immediately inform our Board of such conflict of interest situation for the breach of statutory declaration including but not limited to the right to institute any legal action against such conflicted party in accordance with our Group's conflict of interest policy.

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11. CONFLICT OF INTERESTS (CONT'D)

11.3 DECLARATION BY ADVISERS ON CONFLICT OF INTERESTS**11.3.1 Principal Adviser, Sponsor, Sole Underwriter and Sole Placement Agent**

Mercury Securities, has confirmed that it has no existing or potential conflict of interest in its capacity as the Principal Adviser, Sponsor, Sole Underwriter and Sole Placement Agent for our Group in relation to the Listing.

11.3.2 Due Diligence Solicitors for our IPO and Solicitors for our Group

Olivia Lim & Co, the Due Diligence Solicitors for our IPO has confirmed that it has no existing or potential conflict of interest in its capacity as the Due Diligence Solicitors for our IPO in relation to the Listing.

Koh Kim Leng & Company, the Solicitors for our Group has confirmed that it has no existing or potential conflict of interest in its capacity as the Solicitors to our Group in relation to the Listing.

11.3.3 Auditors and Reporting Accountants

Crowe Malaysia PLT, has confirmed that it has no existing or potential conflict of interest in its capacity as the Auditors and Reporting Accountants for our Group in relation to the Listing.

11.3.4 Independent Market Researcher

Protégé Associates Sdn Bhd, has confirmed that it has no existing or potential conflict of interest in its capacity as the Independent Market Researcher for our Group in relation to the Listing.

11.3.5 Company Secretary

Acclime Corporate Services Sdn Bhd, has confirmed that it has no existing or potential conflict of interest in its capacity as the Company Secretary for our Group in relation to the Listing.

11.3.6 Internal Control Review Consultant

Sterling Business Alignment Consulting Sdn Bhd, has confirmed that it has no existing or potential conflict of interest in its capacity as the Internal Control Review Consultant for our Group in relation to the Listing.

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12 FINANCIAL INFORMATION**12.1 HISTORICAL FINANCIAL INFORMATION**

The audited combined financial statements for FYE 2019 to FYE 2021 and audited consolidated financial statements for FYE 2022 were prepared in accordance with the approved accounting standards in Malaysia - Malaysian Financial Reporting Standards ("MFRS") and International Financial Reporting Standards ("IFRS"). The audited financial statements of the companies within our Group for the FY Under Review were not subject to any audit qualification, modification and disclaimer. The selected financial information included in this Prospectus is not intended to predict our Group's financial position, results or cash flows.

12.1.1 Historical audited combined and consolidated statements of profit or loss and other comprehensive income

The table below sets out our historical audited combined and consolidated statements of profit or loss and other comprehensive income for the FY Under Review, which had been extracted from the Accountants' Report as set out in Section 13 of this Prospectus.

You should read this section together with the Management's Discussion and Analysis of Financial Conditions and Results of Operations as set out in Section 12.3 of this Prospectus.

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Revenue	11,897	44,408	91,556	68,871
Cost of sales	(10,775)	(38,899)	(80,575)	(58,911)
GP	1,122	5,509	10,981	9,960
Other income	2	101	224	19
Selling and distribution expenses	(243)	(141)	(118)	(101)
Administrative expenses	(622)	(1,105)	(2,169)	(3,660)
Reversal of impairment losses on financial assets	-	-	138	-
Profit from operations	259	4,364	9,056	6,218
Finance costs	(24)	(51)	(101)	(171)
PBT	235	4,313	8,955	6,047
Tax expense	(48)	(1,107)	(2,223)	(1,725)
PAT	187	3,206	6,732	4,322
GP margin (%) ⁽¹⁾	9.43	12.41	11.99	14.46
PBT margin (%) ⁽²⁾	1.98	9.71	9.78	8.78
PAT margin (%) ⁽³⁾	1.57	7.22	7.35	6.28
EBITDA ⁽⁴⁾	365	4,567	9,336	6,526
EPS				
• Basic and diluted ⁽⁵⁾ (sen)	0.06	1.11	2.34	1.50

Notes:

(1) GP margin is computed based on GP over revenue.

(2) PBT margin is computed based on PBT over revenue.

(3) PAT margin is computed based on PAT over revenue.

12. FINANCIAL INFORMATION (CONT'D)

(4) EBITDA is computed as follows:

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
PBT	235	4,313	8,955	6,047
Add: Finance Cost	24	51	101	171
Add: Depreciation	108	208	291	327
Less: Interest income	(2)	(5)	(11)	(19)
EBITDA	365	4,567	9,336	6,526

(5) Calculated based on PAT divided by our issued share capital of 288,000,000 Shares before our IPO.

12.1.2 Historical audited combined and consolidated statements of financial position

The table below sets out our historical audited combined and consolidated statements of financial position for the FY Under Review, which had been extracted from the Accountants' Report as set out in Section 13 of this Prospectus.

You should read this section together with the Management's Discussion and Analysis of Financial Conditions and Results of Operations as set out in Section 12.3 of this Prospectus.

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Assets				
Non-currents assets				
PPE	691	1,178	1,817	1,636
ROU assets	449	1,489	2,763	2,715
Deferred tax assets	79	30	-	-
Deposit placed for life insurance policy	-	-	80	80
Total non-currents assets	1,219	2,697	4,660	4,431
Current assets				
Inventories	2,403	3,254	5,085	4,310
Trade and other receivables	774	7,411	61	2,984
Cash and bank balances	329	288	6,398	8,999
Fixed deposit with a licensed bank	-	-	-	500
Total current assets	3,506	10,953	11,544	16,793
Total assets	4,725	13,650	16,204	21,224
Liabilities				
Non-current liabilities				
Long-term borrowings	555	1,784	2,389	1,915
Deferred tax liabilities	-	-	144	173
Non-current liabilities	555	1,784	2,533	2,088

12. FINANCIAL INFORMATION (CONT'D)

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Current liabilities				
Trade and other payables	2,456	5,929	824	1,303
Amount due to directors	750	756	-	-
Short-term borrowings	99	172	1,133	2,490
Current tax liabilities	16	954	927	234
Total current liabilities	3,321	7,811	2,884	4,027
Total liabilities	3,876	9,595	5,417	6,115
Equity				
Share capital	-	-	-	10,800
Invested capital	500	500	500	-
Merger deficit	-	-	-	(10,300)
Retained profits	349	3,555	10,287	14,609
Equity attributable to the owners of the Company	849	4,055	10,787	15,109
Total equity	849	4,055	10,787	15,109
Total equity and liabilities	4,725	13,650	16,204	21,224

12.1.3 Historical audited combined and consolidated statements of cash flows

The table below sets out our historical audited combined and consolidated statements of cash flows for the FY Under Review, which had been extracted from the Accountants' Report as set out in Section 13 of this Prospectus.

You should read this section together with the Management's Discussion and Analysis of Financial Conditions and Results of Operations as set out in Section 12.3 of this Prospectus and Liquidity and Capital Resources as set out in Section 12.6 of this Prospectus.

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Cash flows (for)/from operating activities				
PBT	235	4,313	8,955	6,047
Adjustments for:				
Depreciation of PPE	102	188	249	279
Depreciation of ROU assets	6	20	42	48
Interest expenses	23	45	98	166
Loss on disposal of PPE	-	-	*	-
Interest income	(2)	(5)	(11)	(19)
Reversal of impairment losses on trade receivables	-	-	(138)	-
Operating income before working capital changes	364	4,561	9,195	6,521
(Increase)/Decrease in inventories	(1,838)	(851)	(1,831)	775
Decrease/(Increase) in trade and other receivables	445	(6,634)	7,405	(2,923)

12. FINANCIAL INFORMATION (CONT'D)

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Increase/(Decrease) in trade and other payables	643	2,999	(2,905)	479
Cash flows (for)/from operations	(386)	75	11,864	4,852
Tax refunded	2	-	-	-
Income tax paid	(32)	(120)	(2,076)	(2,389)
Interest paid	(23)	(45)	(98)	(166)
Net cash (for)/from operating activities	(439)	(90)	9,690	2,297
Cash flows for investing activities				
Interest received	2	5	11	19
Proceeds from disposal of plant and equipment	-	-	3	-
Purchase of PPE	(153)	(675)	(891)	(98)
Purchase of ROU assets	-	(1,060)	(1,316)	-
(Advances to)/Repayment from related parties	-	(3)	3	-
Net cash for investing activities	(151)	(1,733)	(2,190)	(79)
Cash flows from/(for) financing activities				
Proceeds from issuance of ordinary shares	-	-	-	#
Drawdown of term loans	540	1,354	747	-
Repayment of term loans	(82)	(52)	(181)	(539)
Drawdown of bankers' acceptance	-	-	1,000	1,422
(Repayment to)/Advances from related parties	(24)	474	(2,200)	-
Addition of fixed deposit pledged to a licensed bank	-	-	-	(500)
Advances from/(Repayment to) directors	-	6	(756)	-
Net cash from/(for) financing activities	434	1,782	(1,390)	383
Net (decrease)/increase in cash and cash equivalents	(156)	(41)	6,110	2,601
Cash and cash equivalents at beginning of the financial year	485	329	288	6,398
Cash and cash equivalents at end of the financial year	329	288	6,398	8,999

Notes:

* Denotes RM470

Denotes RM1

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12. FINANCIAL INFORMATION (CONT'D)**12.2 CAPITALISATION AND INDEBTEDNESS**

The following table sets out our Group's capitalisation and indebtedness:

- (i) our unaudited statements of financial position as at 30 April 2023; and
- (ii) after adjusting for our IPO and utilisation of proceeds arising from the IPO.

	Unaudited	I	II
	As at	After IPO	After I and
	30 April 2023	After IPO	utilisation of
	RM'000	RM'000	proceeds
			RM'000
Indebtedness ⁽¹⁾			
<i>Current</i>			
Bankers' acceptance	3,042	3,042	3,042
Term loans	47	47	47
Hire purchase	78	78	78
Total Current	3,167	3,167	3,167
<i>Non-current</i>			
Term loans	1,915	1,915	1,915
Hire purchase	347	347	347
Total Non-current	2,262	2,262	2,262
Total indebtedness	5,429	5,429	5,429
Capitalisation			
Shareholders' equity	17,152	37,732	34,732
Total capitalisation	17,152	37,732	34,732
Total capitalisation and indebtedness	22,581	43,161	40,161
Gearing ratio ⁽²⁾	0.32	0.14	0.16

Notes:

(1) All of our indebtedness is either secured and/or guaranteed.

(2) Gearing ratio is computed based on total indebtedness divided by total shareholders' equity.

Our shareholders' equity increased by RM20.58 million as a result of the issue of Issue Shares.

Total indebtedness will remain the same after the IPO as there is no portion of the IPO proceeds intended to be utilised for repayment of bank borrowings.

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12. FINANCIAL INFORMATION (CONT'D)**12.3 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

The following management's discussion and analysis in respect of our financial conditions and results of operations for the FY under Review should be read in conjunction with the accompanying notes, assumptions and bases set out in the Accountants' Report as set out in Section 13 of this Prospectus.

This discussion and analysis contain data derived from our audited combined and consolidated financial statements as well as forward-looking statements that include risks, uncertainties and assumptions for the FY Under Review. Factors that may cause future results to differ materially from the historical financial information include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly the Risk Factors as set out in Section 9 of this Prospectus.

12.3.1 Overview

Our principal activity during the FY Under Review is categorised into one (1) core activity, namely:

- Processing and sale of EBN, specifically the RUCENB

Our Group's operations are headquartered in Melaka, Malaysia. Our customers are mainly from the PRC and Malaysia. Our revenue is generated from international and local sales, and the currencies used in contracts are predominantly RMB and RM. Approximately 26.02%, 99.58%, 99.38% and 98.55% of our revenue were exports to the PRC and denominated in RMB respectively for FYE 2019, FYE 2020, FYE 2021 and FYE 2022, with the remainder denominated in RM.

Please refer to Section 7 (*Business Overview*) for further details of the Business Overview of our Group. We set out below the analysis of our past financial performance and the commentaries thereof, during the FY Under Review.

12.3.2 Revenue

Our revenue is principally derived from one (1) main business segment which is the processing and sale of EBN, specifically the RUCENB.

Revenue from sale of EBN, specifically the RUCENB, is recognised at the point in time when the control of the goods has been transferred to our customers.

Our revenue during the FY Under Review were generated mainly from customers in Malaysia and the PRC, as well as Hong Kong in FYE 2019.

We set out below the revenue breakdown by product range and geographical region and its respective commentaries during the FY Under Review.

- **Analysis of revenue by product range**

Types	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Guan (官)	1,523	12.80	4,209	9.48	7,631	8.33	2,281	3.31
Tian (天)	8,835	74.26	39,188	88.24	78,270	85.49	61,232	88.91
Ban (般)	142	1.20	-	-	-	-	-	-
Cui (翠)	470	3.95	847	1.91	5,444	5.95	5,210	7.56
Others ⁽¹⁾	927	7.79	164	0.37	211	0.23	148	0.22
	11,897	100.00	44,408	100.00	91,556	100.00	68,871	100.00

Note:

(1) Others consist of EBN byproducts such as crumbs or fragments during the processing of RUCENB as well as lower grade (i.e. impurities, undesirable colours) EBN that was identified during sorting which does not meet the quality requirements for export to the PRC.

12. FINANCIAL INFORMATION (CONT'D)

- Analysis of revenue by geographical region**

Country	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
PRC	3,096	26.02	44,222	99.58	90,984	99.38	67,872	98.55
Malaysia	6,777	56.97	186	0.42	572	0.62	999	1.45
Hong Kong	2,024	17.01	-	-	-	-	-	-
	11,897	100.00	44,408	100.00	91,556	100.00	68,871	100.00

The total weight of RUCBN sold were 2,956kg in FYE 2019, 9,531kg in FYE 2020, 19,131kg in FYE 2021 and 15,842kg in FYE 2022.

Commentaries**(i) FYE 2020 as compared to FYE 2019**

Our total revenue increased by RM32.51 million or 273.19% from RM11.90 million in FYE 2019 to RM44.41 million in FYE 2020. The details are as follows:

Changes in revenue by product range

	Change in revenue	
	RM'000	%
Guan (官)	2,686	176.36
Tian (天)	30,353	343.55
Ban (般)	(142)	(100.00)
Cui (翠)	377	80.21
Others ⁽¹⁾	(763)	(82.31)
Total	32,511	

Note:

(1) Others consist of EBN byproducts such as crumbs or fragments during the processing of RUCBN as well as lower grade (i.e. impurities, undesirable colours) EBN that was identified during sorting which does not meet the quality requirements for export to the PRC.

Changes in revenue by geographical region

	Change in revenue	
	RM'000	%
PRC	41,126	1,328.36
Malaysia	(6,591)	(97.26)
Hong Kong	(2,024)	(100.00)
Total	32,511	

The increase in our Group's revenue from RM11.90 million in FYE 2019 to RM44.41 million in FYE 2020 was mainly due to the following:

- (a) Upon obtaining the approval from GACC to export RUCBN to the PRC in September 2019, our Group recorded a growth in revenue of RM41.13 million or 1,328.36% from the PRC in FYE 2020 for a full financial year (i.e. 12 months) of export sales directly to customers in the PRC, as compared to two (2) months (i.e. November and December) sales

12. FINANCIAL INFORMATION (CONT'D)

recorded in FYE 2019. The option of having Malaysian RUCEBN delivered directly to the PRC, the world's largest consumer for EBN, has contributed to our increased in orders;

- (b) Increase in sales from our existing customers in the PRC, namely Xiamen Free Trade Area Yan An Ju Industrial Co Ltd, China-Malaysia Qinzhou Industrial Park Jingu (Guangxi) Investment Co Ltd and Jipintang Food Co Ltd, which contributed to the growth in our revenue by RM23.39 million, RM9.61 million and RM3.32 million, respectively;
- (c) Revenue generated from three (3) new customers in the PRC, namely Guangxi GreenSmart Global Co Ltd, Southeast Edible Bird Nest Capital (Xiamen) Industrial Development Co Ltd (which has common director and common shareholder with Xiamen Free Trade Area Yan An Ju Industrial Co Ltd), and Jipintang Health Industry Co Ltd (which has common management with Jipintang Food Co Ltd) amounting to RM1.49 million, RM1.95 million and RM1.38 million, respectively; and
- (d) The increase in sales across the board of our product range offered to the customers in PRC, specifically the Guan, Tian and Cui series of RM2.69 million, RM30.35 million and RM0.38 million respectively. The Tian series was the main revenue contributor of RM39.19 million or 88.24% in FYE 2020, as we were able to source most of the raw bird's nests in such grade and there was also growing demand from our customers for Tian Series. The decrease of sales to zero for our Ban series in FYE 2020 was due to the lower quality in comparison to the Guan and Tian series, predominantly due to its colour and amount of feathers, which is currently not a product range that are sought after by our customers in the PRC.

Nevertheless, since we have shifted our target market to the PRC upon obtaining the approval from GACC to export RUCEBN to the PRC in September 2019, in order to fulfill the market demand from the PRC, our increase in revenue was partially offset by RM8.61 million in FYE 2020 due to:

- (a) Lower contribution from sales to traders and downstream EBN processors in Malaysia by RM6.59 million; and
- (b) Cessation of exports to traders in Hong Kong by RM2.02 million in order to cater to the demands for our products directly from the PRC of which prices are comparatively at a premium of 15% to 20%. Notwithstanding that the Group will continue to serve the Hong Kong's customers provided that there is a demand for our RUCEBN products with competitive pricing.

Our selling prices are predominantly determined based on the purchase prices of raw bird's nests which is market driven, affected by supply and demand. For FYE 2019 to FYE 2021, selling prices for most of our products to customers in the PRC generally ranged between RM4,000 to RM5,500 per kg whereas for FYE 2022, selling prices ranges between RM3,800 to RM5,200. Further, higher quality ranges of RUCEBN, such as our Guan series, will warrant a further price premium of between 20% to 30% on top of our selling prices to customers in the PRC that ranged from approximately RM4,000 to RM5,500 per kg. On the other hand, prior to obtaining approval from GACC in September 2019, our selling prices to traders and downstream EBN processors in Malaysia, ranged from RM2,500 to RM4,500 per kg which included all RUCEBN series in FYE 2019. In FYE 2020 and FYE 2021, we sold Cui series (lower grade) and others product series to traders in Malaysia, the selling prices ranged from RM1,000 to RM2,000 per kg.

12. FINANCIAL INFORMATION (CONT'D)**(ii) FYE 2021 as compared to FYE 2020**

Our total revenue increased by RM47.15 million or 106.17% from RM44.41 million in FYE 2020 to RM91.56 million during FYE 2021. The details are as follows:

Changes in revenue by product range

	Change in revenue	
	RM'000	%
Guan (官)	3,422	81.30
Tian (天)	39,082	99.73
Cui (翠)	4,597	542.74
Others ⁽¹⁾	47	28.66
Total	47,148	

Note:

(1) Others consist of EBN byproducts such as crumbs or fragments during the processing of RUCEBN as well as lower grade (i.e. impurities, undesirable colours) EBN that was identified during sorting which does not meet the quality requirements for export to the PRC.

Changes in revenue by geographical region

	Change in revenue	
	RM'000	%
PRC	46,762	105.74
Malaysia	386	207.53
Total	47,148	

The increase in our Group's revenue of RM47.15 million from RM44.41 million in FYE 2020 to RM91.56 million in FYE 2021 was mainly due to the following:

- (a) Substantial increase in revenue contribution by two (2) of our major customers, namely Southeast Edible Bird Nest Capital (Xiamen) Industrial Development Co Ltd (which has common director and common shareholder with Xiamen Free Trade Area Yan An Ju Industrial Co Ltd) and Jipintang Health Industry Co Ltd (which have common management with Jipintang Food Co Ltd), which amounted to RM55.27 million or 2,839.98% and RM10.67 million or 774.24%, respectively;
- (b) The continuous increase in sales for our Guan, Tian and Cui product series by RM3.42 million, RM39.08 million and RM4.60 million respectively, predominantly comprising exports to customers in the PRC. Our Tian series was the main revenue contributor with revenue of RM78.27 million or 85.49% in FYE 2021 as we were able to source most of the raw bird's nests in such grade and there was also growing demand from our customers for Tian Series; and
- (c) Our export quantity increased by 9,379 kg from 9,384 kg in FYE 2020 to 18,763 kg in FYE 2021, this had increased the availability of our others product series that were sold to CVW Ventures, with a revenue of RM0.57 million recorded.

The increase in revenue was partially offset by the decrease in sales to several of our customers in the PRC such as Xiamen Free Trade Area Yan An Ju Industrial Co Ltd (which has common director and common shareholder with Southeast Edible Bird Nest Capital (Xiamen) Industrial Development Co Ltd) by RM12.98 million and

12. FINANCIAL INFORMATION (CONT'D)

China-Malaysia Qinzhou Industrial Park Jingu (Guangxi) Investment Co Ltd by RM1.12 million due to lower orders received.

Furthermore, we had ceased sales to Jipintang Food Co Ltd since November 2020, with revenue of RM4.09 million in FYE 2020, as we have transacted with another business entity, namely Jipintang Health Industry Co Ltd (which has common management with Jipintang Food Co Ltd).

Our selling prices are predominantly determined based on the purchase prices of raw bird's nests which is market driven, affected by supply and demand. For FYE 2019 to FYE 2021, selling prices for most of our products to customers in the PRC generally ranged between RM4,000 to RM5,500 per kg whereas for FYE 2022, selling prices ranges between RM3,800 to RM5,200. Further, higher quality ranges of RUCEBN, such as our Guan series, will warrant further price premiums of between 20% to 30% on top of our selling prices to customers in the PRC that ranged from approximately RM4,000 to RM5,500 per kg. In FYE 2021, our selling prices remained fairly consistent as compared with FYE 2020, with the increased in export quantity to the PRC by 9,379kg from 9,384kg in FYE 2020 to 18,763kg in FYE 2021.

(iii) FYE 2022 as compared to FYE 2021**Changes in revenue by product range**

	Change in revenue	
	RM'000	%
Guan (官)	(5,350)	(70.11)
Tian (天)	(17,038)	(21.77)
Cui (翠)	(234)	(4.30)
Others ⁽¹⁾	(63)	(29.86)
Total	(22,685)	

Note:

(1) Others consist of EBN byproducts such as crumbs or fragments during the processing of RUCEBN as well as lower grade (i.e. impurities, undesirable colours) EBN that was identified during sorting which does not meet the quality requirements for export to the PRC.

Changes in revenue by geographical region

	Change in revenue	
	RM'000	%
PRC	(23,112)	(25.40)
Malaysia	427	74.65
Total	(22,685)	

12. FINANCIAL INFORMATION (CONT'D)

Our Group's revenue decreased by RM22.69 million or 24.78% from RM91.56 million in FYE 2021 to RM68.87 million in FYE 2022 mainly due to the following:

- (a) The decrease in revenue amounting to approximately RM23.11 million from the PRC were mainly due to the decrease in sales to our following customers:
- (i) Southeast Edible Bird Nest Capital (Xiamen) Industrial Development Co., Ltd. amounted to RM12.88 million;
 - (ii) China-Malaysia Jinguyan (Guangxi) Biotechnology Co., Ltd. amounted to RM7.90 million (previously transacted via China-Malaysia Qinzhou Industrial Park Jingu (Guangxi) Investment Co., Ltd. in FYE 2021 which they have common management);
 - (iii) Jipintang Health Industry Co Ltd amounted to RM4.49 million; and
 - (iv) Southeast Edible Bird Nest Capital Biotechnology Co., Ltd. amounted to RM2.23 million (previously transacted via Xiamen Free Trade Area Yan An Ju Industrial Co., Ltd. in FYE 2021 which they have common directors and common shareholders),

as a result of the demand from the PRC in general had softened in FYE 2022, due to the Zero-COVID Measures resulting in slowdown in our sales with RUCEBN export quantity to the PRC being 15,075kg in FYE 2022 as compared to 18,763kg in FYE 2021. This has mainly decreased our export sales of Tian series by RM17.04 million in FYE 2022 as compared to FYE 2021;

- (b) There was a decrease in Guan series sales by RM5.35 million or 70.11% in FYE 2022, due to the unavailability of raw bird's nests of such grade; and
- (c) For FYE 2019 to FYE 2021, selling prices for most of our products to customers in the PRC generally ranged between RM4,000 to RM5,500 per kg. However, there was a decrease in our selling prices in FYE 2022 to a range of between RM3,800 to RM5,200 per kg due to the adjustment of our RUCEBN selling prices according to the prevailing market prices of raw bird's nests.

Nevertheless, the decrease in revenue was partially offset by:

- (a) Revenue generated from two (2) new customers in the PRC as follows:-
- (i) Yue Xiang (Zhejiang) Food Co Ltd amounting to RM4.04 million; and
 - (ii) Guangxi Nan Yang amounting to RM0.86 million; and
- (b) Sales of our products, particularly Cui and Others to Homi Birdnest, an EBN trader in Malaysia amounting to RM0.61 million in FYE 2022.

12. FINANCIAL INFORMATION (CONT'D)

12.3.3 Costs of Sales

Costs of sales comprises mainly the following:

(i) Raw materials cost

Our raw materials cost solely comprises the cost of purchases of raw bird's nests from bird's nest farmers, traders and agents in Malaysia. We then process these raw bird's nests according to our process flow as set out in Section 7.6 (*Business and Operation Process*) of this Prospectus in order to sell them as RUCEBN.

Our raw materials cost is the largest component in our cost of sales, amounting to 97.91% or RM10.55 million, 98.23% or RM38.21 million, 98.08% or RM79.03 million and 97.36% or RM57.36 million in FYE 2019, FYE 2020, FYE 2021 and FYE 2022, respectively.

Throughout the FY Under Review, while operations staff cost had increased consistently, all the other components of cost of sales such as raw materials, carriage outwards and laboratory testing changed in tandem with the revenue. The raw materials cost, had remained as the main component of cost of sales, with only a marginal increase of 0.32% in FYE 2020, a marginal decrease of 0.15% in FYE 2021 and a marginal decrease of 0.72% in FYE 2022.

Similarly, we had adjusted our RUCEBN selling prices from time to time according to the prevailing market prices of raw bird's nests. In the FYE 2019 to FYE 2021, prices of raw bird's nests, in general, had remained fairly stable. Nevertheless, in FYE 2022, in conjunction with the softened demand from the PRC as a result of the Zero-COVID Measures, there had been a decrease of approximately 11.00% on the purchase prices of raw bird's nests.

(ii) Operations staff cost

Operations staff cost consists of our operations department staff salaries, allowances, overtime costs, bonuses, statutory contributions (e.g. EPF, SOCSO, employment insurance system) and performance incentives.

While operations staff cost had increased substantially from FYE 2019 to FYE 2022 which was in line with our increase in headcount from 9 headcounts in FYE 2019 to 37 headcounts in FYE 2022 in our operations department, it represented between 1.32% to 2.13% of our cost of sales.

(iii) Carriage outwards

Carriage outwards comprises predominantly the cost of delivering RUCEBN to our local and foreign customers.

It accounted for only 0.06% or RM0.01 million of our cost of sales in FYE 2019 with 56.97% of our sales in Malaysia and delivered via land transport. In FYE 2020, FYE 2021 and FYE 2022, our carriage outwards represented 0.35% or RM0.14 million, 0.39% or RM0.31 million and 0.42% or RM0.25 million of our cost of sales respectively, since we had shifted our target market to the PRC upon obtaining the approval from GACC to export RUCEBN to the PRC in September 2019, our sales were predominantly exports to the PRC and delivered via air freight.

(iv) Laboratory testing

Laboratory testing consists mainly of professional fees paid to an independent and certified laboratory in relation to sending samples of our products (i.e. RUCEBN) for microbiological and heavy metals tests, as well as Norovirus test. Our product packaging surface are also tested for COVID-19. All of which are conditions imposed by the DVS and/or our customers

12. FINANCIAL INFORMATION (CONT'D)

for export to the PRC. It represented between 0.09% to 0.17% of our cost of sales during the FY Under Review.

- Analysis of costs of sales by components**

Components	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Raw materials cost	10,550	97.91	38,212	98.23	79,025	98.08	57,358	97.36
Operations staff cost	203	1.88	512	1.32	1,100	1.36	1,255	2.13
Carriage outwards	6	0.06	137	0.35	312	0.39	246	0.42
Laboratory testing	16	0.15	38	0.10	138	0.17	52	0.09
	10,775	100.00	38,899	100.00	80,575	100.00	58,911	100.00

- Analysis of costs of sales by product range⁽¹⁾**

Types	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Guan (官)	1,321	12.26	3,617	9.30	6,538	8.11	1,913	3.25
Tian (天)	7,976	74.02	34,321	88.23	68,658	85.21	51,979	88.23
Ban (般)	131	1.22	-	-	-	-	-	-
Cui (翠)	443	4.11	801	2.06	5,173	6.42	4,876	8.28
Others ⁽²⁾	904	8.39	160	0.41	206	0.26	143	0.24
	10,775	100.00	38,899	100.00	80,575	100.00	58,911	100.00

Notes:

(1) The proportion of our Group's cost of sales is allocated mainly based on the raw material costs after the raw bird's nests are sorted to their respective product range upon receipt the raw bird's nests from our Approved Suppliers. Whereas the operations staff cost, carriage outwards and laboratory testing expenses in general, are apportioned based on the total weight of RUCEBN sold for the respective product range.

(2) Others consist of EBN byproducts such as crumbs or fragments during the processing of RUCEBN as well as lower grade (i.e. impurities, undesirable colours) EBN that was identified during sorting which does not meet the quality requirements for export to the PRC.

- Analysis of costs of sales by geographical region**

Countries	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
PRC	2,701	25.07	38,719	99.54	80,026	99.32	57,971	98.40
Malaysia	6,220	57.73	180	0.46	549	0.68	940	1.60
Hong Kong	1,854	17.20	-	-	-	-	-	-
	10,775	100.00	38,899	100.00	80,575	100.00	58,911	100.00

12. FINANCIAL INFORMATION (CONT'D)**Commentaries****(i) FYE 2020 as compared to FYE 2019**

Our costs of sales increased by RM28.12 million or 260.85% from RM10.78 million in FYE 2019 to RM38.90 million in FYE 2020. The details are as follows:

Changes in costs of sales by components

	Change in costs of sales	
	RM'000	%
Raw materials cost	27,662	262.20
Operations staff cost	309	152.22
Carriage outwards	131	2,183.33
Laboratory testing	22	137.50
Total	28,124	

Changes in costs of sales by product range

	Change in costs of sales	
	RM'000	%
Guan (官)	2,296	173.81
Tian (天)	26,345	330.30
Ban (般)	(131)	(100.00)
Cui (翠)	358	80.81
Others ⁽¹⁾	(744)	(82.30)
Total	28,124	

Note:

(1) Others consist of EBN byproducts such as crumbs or fragments during the processing of RUCENB as well as lower grade (i.e. impurities, undesirable colours) EBN that was identified during sorting which does not meet the quality requirements for export to the PRC.

Changes in costs of sales by geographical region

	Change in costs of sales	
	RM'000	%
PRC	36,018	1,333.51
Malaysia	(6,040)	(97.11)
Hong Kong	(1,854)	(100.00)
Total	28,124	

The increase in our Group's total cost of sales from RM10.78 million in FYE 2019 to RM38.90 million in FYE 2020 was mainly due to the following:

- (a) Upon obtaining the approval from GACC to export RUCENB to the PRC in September 2019, we had a significant increase in our raw materials (i.e. raw bird's nests) cost by RM27.66 million, from RM10.55 million in FYE 2019 to RM38.21 million in FYE 2020, to cater to the increase in demand from customers in the PRC. The increase in raw materials cost was in line with the increase in revenue in FYE 2020 of RM32.51 million or 273.19%,

12. FINANCIAL INFORMATION (CONT'D)

attributable to full financial year (i.e. 12 months) of export sales directly to customers in the PRC, as compared to two (2) months (i.e. November and December) sales recorded in FYE 2019.

Purchase prices of raw bird's nests are solely market driven, determined by supply and demand as well as the quality of the bird's nests. In FYE 2019 and FYE 2020, there were no major or unexpected purchase price fluctuations, with monthly price movements (i.e. increase or decrease) generally ranging between RM100 to RM200 per kg.

In FYE 2019, the purchase prices of our raw bird's nests ranged from approximately RM3,000 to RM4,400 per kg. In FYE 2020, the purchase prices of our raw bird's nests ranged from approximately RM3,250 to RM4,750 per kg;

- (b) Our operations department's staff cost increased by RM0.31 million from RM0.20 million in FYE 2019 to RM0.51 million in FYE 2020, as we expanded our operations workforce from 9 headcounts in FYE 2019 to 23 headcounts in FYE 2020, in order to increase our output in processing RUCEBN to meet the demand for our PRC's customers;
- (c) Our carriage outwards increased by RM0.13 million from RM0.01 million in FYE 2019 to RM0.14 million in FYE 2020, as we had shifted our target market to the PRC upon obtaining the approval from GACC to export RUCEBN to the PRC in September 2019, in which air freight services are frequently used, as compared to FYE 2019 when we had 56.97% of our sales transacted in Malaysia with less air freight delivery cost incurred; and
- (d) Our laboratory testing expenses increased by RM0.02 million from RM0.02 million in FYE 2019 to RM0.04 million in FYE 2020, and this was in line with the increase in revenue from export of RUCEBN to the PRC in FYE 2020 as compared to FYE 2019. According to the DVS' standard operating procedures for exports of RUCEBN to the PRC, a Certificate of Analysis, comprising microbiological and heavy metals test results, issued by an independent and certified professional service provider, is required as part of the supporting documents for export permit application.

(ii) FYE 2021 as compared to FYE 2020

Our costs of sales increased by RM41.68 million or 107.15% from RM38.90 million in FYE 2020 to RM80.58 million during FYE 2021. The details are as follows:

Changes in costs of sales by components

	Change in costs of sales	
	RM'000	%
Raw materials cost	40,813	106.81
Operations staff cost	588	114.84
Carriage outwards	175	127.74
Laboratory testing	100	263.16
Total	41,676	

12. FINANCIAL INFORMATION (CONT'D)**Changes in costs of sales by product range**

	Change in costs of sales	
	RM'000	%
Guan (官)	2,921	80.76
Tian (天)	34,337	100.05
Cui (翠)	4,372	545.82
Others ⁽¹⁾	46	28.75
Total	41,676	

Note:

(1) Others consist of EBN byproducts such as crumbs or fragments during the processing of RUCEBN as well as lower grade (i.e. impurities, undesirable colours) EBN that was identified during sorting which does not meet the quality requirements for export to the PRC.

Changes in costs of sales by geographical region

	Change in costs of sales	
	RM'000	%
PRC	41,307	106.68
Malaysia	369	205.00
Hong Kong	-	-
Total	41,676	

The increase in our Group's cost of sales from RM38.90 million in FYE 2020 to RM80.58 million in FYE 2021 mainly due to the following:

- (a) Our raw materials (i.e. raw bird's nests) cost for processing increased substantially by RM40.82 million from RM38.21 million in FYE 2020 to RM79.03 million in FYE 2021, this was mainly contributed by the increase in demand from customers in the PRC. The increase in raw materials cost was in line with the increase in revenue in FYE 2021 of RM47.15 million or 106.17%.

Purchase prices of raw bird's nests are solely market driven, determined by supply and demand as well as the quality of bird's nest. In FYE 2021, there were no major or unexpected purchase price fluctuations, with monthly price movements (i.e. increase or decrease) generally ranging between RM100 to RM200 per kg.

In FYE 2021, the purchase prices of our raw bird's nests ranged from approximately RM3,250 to RM4,750 per kg;

- (b) Our operations department's staff cost increased by RM0.59 million in FYE 2021, as we continued to expand our operations workforce from 23 headcounts in FYE 2020 to 36 headcounts in FYE 2021 in order to increase our output in processing RUCEBN to meet the continuing demand in PRC. We had also rewarded our employees with bonuses and incentives amounting to RM0.20 million in FYE 2021;
- (c) Our carriage outwards increased by RM0.17 million from RM0.14 million in FYE 2020 to RM0.31 million in FYE 2021, as our export sales to the PRC had increased by RM46.76 million or 105.74%, which contributed to the increase in the usage of air freight services; and

12. FINANCIAL INFORMATION (CONT'D)

- (d) Our laboratory testing expenses increased by RM0.10 million from RM0.04 million in FYE 2020 to RM0.14 million in FYE 2021, which corresponded to our continued increase in exports of RUCEBN to the PRC in FYE 2021. According to the DVS' standard operating procedures for exports of RUCEBN to the PRC, a Certificate of Analysis, comprising microbiological and heavy metals test results, issued by an independent and certified professional service provider, is required as part of the supporting documents for export permit application. Aside from that, we incurred a one-off RM0.05 million of laboratory testing expenses in relation to our participation in a project led by DVS to conduct a risk assessment of heavy metals content in RUCEBN.

(iii) FYE 2022 as compared to FYE 2021**Changes in costs of sales by components**

	Change in costs of sales	
	RM'000	%
Raw materials cost	(21,667)	(27.42)
Operations staff cost	155	14.09
Carriage outwards	(66)	(21.15)
Laboratory testing	(86)	(62.32)
Total	(21,664)	

Changes in costs of sales by product range

	Change in costs of sales	
	RM'000	%
Guan (官)	(4,625)	(70.74)
Tian (天)	(16,679)	(24.29)
Cui (翠)	(297)	(5.74)
Others ⁽¹⁾	(63)	(30.59)
Total	(21,664)	

Note:

- (1) Others consist of EBN byproducts such as crumbs or fragments during the processing of RUCEBN as well as lower grade (i.e. impurities, undesirable colours) EBN that was identified during sorting which does not meet the quality requirements for export to the PRC.

Changes in costs of sales by geographical region

	Change in costs of sales	
	RM'000	%
PRC	(22,055)	(27.56)
Malaysia	391	71.22
Total	(21,664)	

Our costs of sales decreased by RM21.67 million or 26.90% from RM80.58 million in FYE 2021 to RM58.91 million in FYE 2022. The details are as follows:

12. FINANCIAL INFORMATION (CONT'D)

- (a) The decrease in raw materials cost by RM21.67 million or 27.42% in FYE 2022 as purchase prices of raw bird's nests had decreased of approximately 11.00%, which was in line with softened demand from the PRC due to the Zero-COVID Measures.

In FYE 2022, the purchase prices of our raw bird's nests ranged from approximately RM3,000 per kg to RM4,100 per kg;

- (b) Our carriage outwards decreased by RM0.07 million from RM0.31 million in FYE 2021 to RM0.24 million in FYE 2022 which was in line with the decrease of export sales to our PRC customers in FYE 2022 as compared to FYE 2021; and
- (c) Lower laboratory testing expenses by RM0.09 million from RM0.14 million in FYE 2021 to RM0.05 million in FYE 2022, was in line with the decrease in exports of RUCEBN to the PRC in FYE 2022 as compared to FYE 2021.

However, the decrease in our Group's total cost of sales was partially offset due to our operations department's staff cost increased by RM0.16 million from RM1.10 million in FYE 2021 to RM1.26 million in FYE 2022 mainly due to the increase in headcount from 36 headcounts in FYE 2021 to 37 headcounts in FYE 2022, salary increment and increase in minimum wage of Malaysia under the Minimum Wages Order 2022.

12.3.4 GP and GP margin

The GP and GP margin recorded over the FY Under Review are as follows:

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
GP (RM'000)	1,122	5,509	10,981	9,960
GP margin (%)	9.43	12.41	11.99	14.46

We set out below the analysis of the GP and GP margin as well as the commentaries during the FY Under Review:

- GP and GP margin by product range**

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%⁽¹⁾	RM'000	%⁽¹⁾	RM'000	%⁽¹⁾	RM'000	%⁽¹⁾
Guan (官)	202	13.26	592	14.07	1,093	14.32	368	16.13
Tian (天)	859	9.72	4,867	12.42	9,612	12.28	9,253	15.11
Ban (般)	11	7.75	-	-	-	-	-	-
Cui (翠)	27	5.74	46	5.43	271	4.98	334	6.41
Others ⁽²⁾	23	2.48	4	2.44	5	2.37	5	3.38
Total GP / Overall GP margin	1,122	9.43	5,509	12.41	10,981	11.99	9,960	14.46

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

- (1) Computed based on the GP of each of the product range over their respective revenue.
 (2) Others consist of EBN byproducts such as crumbs or fragments during the processing of RUCEBN as well as lower grade (i.e. impurities, undesirable colours) EBN that was identified during sorting which does not meet the quality requirements for export to the PRC.

Tian was the main profit contributor to our Group's GP as it also generates the most revenue among our product types.

- Analysis of GP and GP margin by geographical region**

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	GP	GP margin	GP	GP margin	GP	GP margin	GP	GP margin
	RM'000	%⁽¹⁾	RM'000	%⁽¹⁾	RM'000	%⁽¹⁾	RM'000	%⁽¹⁾
PRC	395	12.76	5,503	12.44	10,958	12.04	9,901	14.59
Malaysia	557	8.22	6	3.23	23	4.02	59	5.91
Hong Kong	170	8.40	-	-	-	-	-	-
Total GP / Overall GP margin	1,122	9.43	5,509	12.41	10,981	11.99	9,960	14.46

Note:

- (1) Computed based on the GP of each of the geographical region over their respective revenue.

PRC was the main profit contributor to our Group's GP in FYE 2020, FYE 2021 and FYE 2022, subsequent to us obtaining the approval from GACC to export RUCEBN to the PRC in September 2019.

Commentaries**(i) FYE 2020 as compared to FYE 2019**

Our Group's GP had increased by RM4.39 million or 391.96% from RM1.12 million in FYE 2019 to RM5.51 million in FYE 2020, it was mainly due to the increase in revenue from exporting to the PRC by RM32.51 million or 273.19% from RM11.90 million in FYE 2019 to RM44.41 million in FYE 2020, contributing to the higher GP by RM4.39 million in FYE 2020.

Overall GP margin increased from 9.43% in FYE 2019 to 12.41% in FYE 2020. The improvement in GP margin in FYE 2020, was mainly attributable to the higher selling prices in the PRC of approximately 15% to 35% as compared to other markets such as Malaysia and Hong Kong, that contributed to a higher GP derived from the export sales to the PRC. In line with the higher selling prices to the PRC, our GP margins for Guan series and Tian series had increased from 13.26% and 9.72% in FYE 2019 to 14.07% and 12.42% in FYE 2020, respectively, while our Cui Series had a fairly consistent GP margin with a slight decrease from 5.74% in FYE 2019 to 5.43% in FYE 2020.

Our Guan series, which typically commands the highest GP margin among our product series due to its further price premium of between 20% to 30% on top of our selling prices to customers in the PRC, had contributed a GP margin of 14.07% in FYE 2020. However, due to the decrease in revenue contribution from our Guan series from 12.80% in FYE 2019 to 9.48% in FYE 2020 and the increase in revenue

12. FINANCIAL INFORMATION (CONT'D)

contribution from our Tian series from 74.26% in FYE 2019 to 88.24% in FYE 2020. it led to a marginal decrease in the GP margin by geographical regions in the PRC, from 12.76% in FYE 2019 to 12.44% in FYE 2020. Although Guan series contributed a higher GP margin of 14.07% in FYE 2020 as compared to Tian series that contributed a GP margin of 12.42% in FYE 2020, the Guan series is considerably scarce and more challenging to source, as compared to Tian series which is the most common raw bird's nest grade that we were able to source.

(ii) FYE 2021 as compared to FYE 2020

Our Group's GP increased by RM5.47 million or 99.27% from RM5.51 million in FYE 2020 to RM10.98 million in FYE 2021, it was mainly due to the continuous growth in revenue generated from exporting to the PRC by RM47.15 million or 106.17% from RM44.41 million in FYE 2020 to RM91.56 million in FYE 2021, contributing to the higher GP by RM5.47 million in FYE 2021.

Conversely, our GP margin decreased marginally from 12.41% in FYE 2020 to 11.99% in FYE 2021. While our main cost factor, raw materials cost, remained fairly consistent in FYE 2021, with a slight decrease from 98.23% of the total cost of sales in FYE 2020 to 98.08% of the total cost of sales in FYE 2021, all other cost of sales components such as operations staff cost, carriage outwards and laboratory testing had respectively increased by 114.84%, 127.74% and 263.16%, which were in a greater proportion than the increase of our export to the PRC of 105.74%. The increase of our cost of sales was contributed by the increase in the usage of air freight services which was in line with the increase in revenue from export of RUCEBN to the PRC, as well as the increase in air freight charges in FYE 2021. In addition, there was an incurrence of one-off RM0.05 million of laboratory testing expenses in relation to our participation in a project led by DVS to conduct a risk assessment of heavy metals content in RUCEBN, which has resulted in the slight decline of our overall GP margin and GP margin by geographical region in the PRC from 12.44% in FYE 2020 to 12.04% in FYE 2021. In view of the marginal decrease in our GP margin, except a slight increase for Guan series from 14.07% in FYE 2020 to 14.32% in FYE 2021, our Tian series and Cui series had a marginal decrease for 12.42% and 5.43% in FYE 2020 to 12.28% and 4.98% in FYE 2021, respectively.

(iii) FYE 2022 as compared to FYE 2021

Our Group's GP had decreased by RM1.02 million or 9.29% from RM10.98 million in FYE 2021 to RM9.96 million in FYE 2022. This was mainly due to the decrease in revenue in FYE 2022 as a result of lower demand for RUCEBN from the PRC due to the Zero-COVID Measures.

However, our overall GP margin had increased from 11.99% in FYE 2021 to 14.46% in FYE 2022 was mainly due to the larger decline in purchase prices of raw bird's nests as compared to the selling prices of our products.

12. FINANCIAL INFORMATION (CONT'D)**12.3.5 Other income**

Other income comprises:

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Compensations received	-	-	-	-	101	45.09	-	-
Grants and subsidies	-	-	95	94.06	112	50.00	-	-
Interest income	2	100.00	5	4.95	11	4.91	19	100.00
Sundry income	-	-	1	0.99	*	-(¹)	-	-
	2	100.00	101	100.00	224	100.00	19	100.00

Note:

* Denotes RM300

(¹) Negligible

The commentaries are as follows:

(i) FYE 2020 as compared to FYE 2019

Other income increased by RM0.10 million from a negligible amount (i.e. less than RM0.01 million) in FYE 2019 to RM0.10 million in FYE 2020 mainly due to the wage subsidies amounting to RM0.10 million received from SOCSO for our eligible employees from the Wage Subsidy Programme introduced in FYE 2020 as part of the Malaysian Government's COVID-19 economic stimulus package.

(ii) FYE 2021 as compared to FYE 2020

Other income increased by RM0.12 million or 120.00% from RM0.10 million in FYE 2020 to RM0.22 million in FYE 2021. This was mainly due to the two (2) insurance compensations totaling RM0.10 million received in relation to a case of damages of carton box and plastic packaging of goods detected upon delivery to our customer in the PRC and another case of goods lost in transit (i.e. from Kuala Lumpur to Xiamen, PRC). In both cases, the insurance coverage was able to fully cover our estimated losses and damages suffered which amounted to approximately RM0.10 million. Subsequently, we had enhanced our packaging by procuring higher quality (i.e. thicker) carton boxes with added sturdiness and puncture resistance. We had also improved our carton box wrapping technique with the usage of additional strapping bands to tighten security to prevent any potential tampering.

Additionally, in FYE 2021, grant and subsidies had increased by RM0.02 million because we had managed to obtain a grant amounting to RM0.08 million from SME Corporation Malaysia under its Business Accelerator Programme, as we had increased our heating process productivity via investment in a new machine. On the flip side, the increase in grant and subsidies was partially offset by lower wage subsidies received of RM0.06 million for our eligible employees from the Wage Subsidy Programme in line with the gradual resumption of economic activities in FYE 2021.

(iii) FYE 2022 as compared to FYE 2021

Other income decreased by RM0.20 million from RM0.22 million in FYE 2021 to RM0.02 million in FYE 2022. This was mainly due to the absence of grants and subsidies in FYE 2022 mainly from the Wage Subsidy Programme introduced in FYE 2020 as part of the Malaysian Government's COVID-19 economic stimulus package and absence of insurance compensation in FYE 2022.

12. FINANCIAL INFORMATION (CONT'D)**12.3.6 Selling and distribution expenses**

The details of the selling and distribution expenses are as follows:

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Commission	79	32.51	-	-	-	-	-	-
Entertainment expenses	24	9.88	10	7.09	25	21.19	28	27.72
Event expenses	13	5.35	48	34.04	-	-	-	-
Packaging materials	24	9.88	22	15.61	53	44.91	36	35.64
Travelling and accommodation	103	42.38	61	43.26	40	33.90	37	36.64
	243	100.00	141	100.00	118	100.00	101	100.00

The commentaries are as follows:

(i) FYE 2020 as compared to FYE 2019

Selling and distribution expenses decreased by RM0.10 million or 41.67% from RM0.24 million in FYE 2019 to RM0.14 million in FYE 2020. This was mainly attributable to the absence of payments of commission to agents for the sourcing of raw bird's nests in FYE 2020 as compared to RM0.08 million in FYE 2019. Upon obtaining approval from GACC as the first RUCBN exporter in Malaysia in September 2019, our reputation improved among bird's nest farmers and traders in FYE 2020, which resulted in an increased number of suppliers approaching us directly in FYE 2020. This had allowed us to not source raw bird's nests via agents who are incentivised with commission after they managed to secure raw bird's nests for us.

Travelling and accommodation expenses also decreased by RM0.04 million, due to the imposition of MCO measures caused by the outbreak of COVID-19, that encompassed restrictions on movement, assembly and international travels. On the other hand, the decrease was offset by higher event expenses of RM0.03 million related to the setting up of a stage and canopies, as well as rental of a sound system (e.g. speakers, microphones), chairs and air coolers, as we held a one-off ceremony during the Recovery MCO period (i.e. July 2020) to commemorate the milestone of successfully exporting RUCBN from Malaysia to the PRC. It was physically attended by authorities from DVS and virtually participated by our customers in the PRC. There was strict adherence to the COVID-19 standard operating procedures (e.g. social distancing, wearing of face masks, limited number of participants) during the event.

(ii) FYE 2021 as compared to FYE 2020

Selling and distribution expenses decreased by RM0.02 million or 14.29% from RM0.14 million in FYE 2020 to RM0.12 million in FYE 2021. This was mainly due to the absence of event expenses in FYE 2021, as compared to RM0.05 million in FYE 2020. The decrease was however offset by higher packaging materials cost of RM0.03 million incurred in FYE 2021, mainly due to the increase in purchases of carton boxes with higher quality, as our processing output and export quantity had increased substantially, which was line with our increase in revenue in FYE 2021.

(iii) FYE 2022 as compared to FYE 2021

Selling and distribution expenses decreased by RM0.02 million or 16.67% from RM0.12 million in FYE 2021 to RM0.10 million in FYE 2022. This was mainly due to packaging materials expenses decreasing by RM0.02 million from RM0.05 in FYE 2021 to RM0.03

12. FINANCIAL INFORMATION (CONT'D)

million in FYE 2022 which was in line with the decrease in exports of RUCEBN to the PRC in FYE 2022.

12.3.7 Administrative expenses

Administrative expenses comprise indirect costs relating to the operations of our Group, which are as follows:

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Directors' remuneration	106	17.04	108	9.77	203	9.36	425	11.61
Depreciation of PPE	102	16.40	188	17.01	249	11.48	279	7.62
Depreciation of ROU assets	6	0.96	20	1.81	42	1.94	48	1.31
Administrative staff cost, benefits and welfare	123	19.77	264	23.89	615	28.35	826	22.57
Event expenses	-	-	-	-	-	-	87	2.38
Insurance expenses	35	5.63	67	6.06	106	4.89	123	3.36
License and permit fees	5	0.80	20	1.81	36	1.66	47	1.28
Printing, postage and stationery expenses	13	2.09	10	0.90	32	1.48	57	1.56
Processing-related consumables	8	1.29	36	3.26	90	4.15	64	1.75
Professional fees	23	3.70	92	8.33	448	20.66	1,132	30.93
Realised loss on foreign exchange	51	8.20	72	6.52	7	0.32	202	5.52
Rental expenses	49	7.88	58	5.25	40	1.84	21	0.57
Security expenses	3	0.48	12	1.09	38	1.75	42	1.15
Upkeep of PPE	29	4.66	65	5.88	79	3.64	114	3.12
Utilities and telecommunication expenses	22	3.54	41	3.71	80	3.69	102	2.79
Other administrative cost ⁽¹⁾	47	7.56	52	4.71	104	4.79	91	2.48
	622	100.00	1,105	100.00	2,169	100.00	3,660	100.00

Note:

- (1) Other administrative cost consists of miscellaneous, sundry expenses such as subscription fees for CTOS (a credit reporting agency in Malaysia), training expenses, corporate uniform cost, quit rent and assessment, gifts and donations.

The commentaries are as follows:

(i) FYE 2020 as compared to FYE 2019

Administrative expenses increased by RM0.48 million or 77.42% from RM0.62 million in FYE 2019 to RM1.10 million in FYE 2020 mainly due to the following:

- (a) Our administrative staff cost, benefits and welfare increased by RM0.14 million as we expanded our administrative workforce from 3 employees to 4 employees, coupled with salary increments. We had also rewarded our employees with incentives, a company trip and an annual dinner amounting to a total of RM0.06 million;

12. FINANCIAL INFORMATION (CONT'D)

- (b) The depreciation of PPE and ROU assets, increased by RM0.09 million and RM0.01 million, respectively. This was in line with our capital expenditure incurred for renovation and installation for cold room for Unit 23, as well as the acquisition of Unit 17 and Unit 19 to facilitate our business expansion;
- (c) Our professional fees increased by RM0.07 million as we incurred higher statutory audit fees and legal fees in relation to the acquisition of Unit 17 and Unit 19 for our expansion of business premises;
- (d) Our upkeep of PPE increased by RM0.04 million, as additional spending were incurred on pest control, piping works and painting to maintain our expanded business premises, as well as an increased units of equipment (e.g. trolleys) which amounted to RM0.01 million;
- (e) Our insurance expenses increased by RM0.03 million, as we had increased our fire and burglary insurance coverage for our newly acquired building on Unit 17 and Unit 19, as well as higher insurance coverage on our inventories and higher medical insurance for all of our employees;
- (f) Our expenses incurred on processing-related consumables such as tools and utensils, increased to RM0.03 million, in conjunction with the increase in processing output, which was in line with the increase in revenue in FYE 2020;
- (g) The increase in realised loss on foreign exchange of RM0.02 million as our sales denominated in foreign currency (i.e. RMB) had increased in FYE 2020; and
- (h) Our utilities and telecommunication expenses increased by RM0.02 million, due to the increase in electricity expenses on the completion of renovation works for Unit 23 and the installation of additional cold room storage facility in Unit 23.

(ii) FYE 2021 as compared to FYE 2020

Administrative expenses increased by RM1.06 million or 96.36% from RM1.10 million in FYE 2020 to RM2.16 million in FYE 2021 mainly due to the following:

- (a) Our administrative staff cost, benefits and welfare increased by RM0.35 million as we further expanded our administrative workforce from 4 employees to 11 employees, as well as salary increments, bonuses and incentives rewarded to our employees amounting to RM0.05 million in FYE 2021. In addition, we had incurred additional staff medical expenses (amounting to RM0.07 million) from our implementation of frequent COVID-19 testing, conducted by medical practitioners from a clinic at our business premises, to ensure that all of our employees are provided with the necessary protection and care when needed;
- (b) Our professional fees increased by RM0.36 million, due to the engagement of advisers for the purpose of Listing. In addition, we had also obtained services from an architect for the drawings of our renovation plans on Unit 23 and Unit 25;
- (c) Our Directors' remuneration increased by RM0.09 million due to salary increment and bonus amounting to RM0.05 million for our Non-Independent Executive Director / CEO;
- (d) The depreciation of PPE and ROU assets, increased by RM0.06 million and RM0.02 million, respectively. This was in line with our continued capital expenditure incurred for renovation, computer and office equipment, new heating machine, cold room as well as acquisition of Unit 23 and Unit 25 to facilitate our business expansion;

12. FINANCIAL INFORMATION (CONT'D)

- (e) Our other administrative cost increased by RM0.05 million, due to the additional expenses in relation to training courses such as food handling, GMP, HACCP, and accounting and tax, to upskill our employees, and also the advertising cost for recruitment of new employees. The increase in other administrative cost was also partly attributable by the increase in quit rent and assessment on the additional buildings purchased such as Unit 23 and Unit 25;
- (f) Our expenses incurred on processing-related consumables such as tools, utensils as well as other small value assets, increased by RM0.05 million, this was in line with the substantial increase in our processing output in FYE 2021;
- (g) Our utilities and telecommunication expenses increased by RM0.04 million, due to the higher electricity and water expenses on the completion of renovation works for Unit 23 and Unit 25 and the expansion of cold room storage facility in Unit 17;
- (h) Our insurance expenses increased by RM0.04 million, as we had further increased our insurance coverage for our increasing amount of inventories, new machineries, furniture and fittings, as well as higher cargo insurance coverage for our finished goods; and
- (i) Our security expenses increased by RM0.03 million as we have reinforced physical security around our business premises, by engaging a security service provider for static guarding and patrolling at regular intervals, during after office hours.

(iii) FYE 2022 as compared to FYE 2021

Administrative expenses increased by approximately RM1.49 million or 68.66% from RM2.17 million in FYE 2021 to RM3.66 million in FYE 2022 mainly due to the following:

- (a) Increase in professional fees by RM0.68 million in FYE 2022, as our Group incurred expenses in relation to our Proposed Listing. Additionally, we had also incurred legal fees for the conduct of due diligence on RCEBN processing company in the PRC to be acquired by our Group, as stated in Section 7.23.2 (Exploring expansion into the processing of RCEBN in the PRC through acquisition) of this Prospectus;
- (b) Our administrative staff cost, benefits and welfare increased by RM0.21 million as we further expanded our administrative workforce from 11 employees in FYE 2021 to 12 employees in FYE 2022, coupled with salary increments;
- (c) Increase in Executive Director's remuneration by RM0.22 million in FYE 2022 due to the adjustment of our CEO's salary;
- (d) Our realised loss on foreign exchange had increased by RM0.20 million as the RMB had weakened against the RM, especially towards the end of FYE 2022; and
- (e) We incurred event expenses in FYE 2022 amounting to RM0.09 million (FYE 2021: nil) as our Group held an annual dinner and several meetings at rented conference rooms.

12. FINANCIAL INFORMATION (CONT'D)**12.3.8 Finance costs**

The details of the finance costs are as follows:

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Bank charges	1	4.17	6	11.76	3	2.97	5	2.92
Bankers' acceptance interest	-	-	-	-	6	5.94	74	43.28
Term loan interest	23	95.83	45	88.24	92	91.09	92	53.80
	24	100.00	51	100.00	101	100.00	171	100.00

Finance costs consist of bank charges, bankers' acceptance interest and term loan interest.

(i) FYE 2020 as compared to FYE 2019

Finance cost increased by RM0.03 million or 150.00% from RM0.02 million in FYE 2019 to RM0.05 million in FYE 2020, as the Group had an additional term loan to finance the purchase of Unit 17 and Unit 19 for the expansion of business premises, resulting in an increase in term loan interest expenses.

(ii) FYE 2021 as compared to FYE 2020

Finance cost increased by RM0.05 million or 100.00% from RM0.05 million in FYE 2020 to RM0.10 million in FYE 2021, as the Group had again obtained another term loan to finance the purchase of Unit 25 for the continued expansion of business premises, resulting in the increase in term loan expenses.

(iii) FYE 2022 as compared to FYE 2021

Finance cost increased by RM0.07 million or 70.00% from RM0.10 million in FYE 2021 to RM0.17 million in FYE 2022. This was mainly due to the higher utilisation of bankers' acceptance in FYE 2022 for purchase of raw bird's nests, from which the bankers' acceptance interest increased by RM0.07 million in FYE 2022.

12.3.9 Net Impairment Losses On Financial Assets

The details of the net impairment losses on financial assets are as follows:

	Audited							
	FYE 2019		FYE 2020		FYE 2021		FYE 2022	
	RM'000	%	RM'000	%	RM'000	%	RM'000	%
Reversal of impairment loss	-	-	-	-	138	100.00	-	-
	-	-	-	-	138	100.00	-	-

We had provided for an impairment loss on our trade receivables, being an assessment on the expected credit loss made on the trade receivable in accordance with MFRS 9.

12. FINANCIAL INFORMATION (CONT'D)

Our Group had encountered a long outstanding trade receivable back in FYE 2018 of which the full amount receivable of RM0.40 million was impaired. However, in FYE 2021, the said debtor made several part payments of the outstanding amount. Therefore, resulting in the increase in reversal of impairment of RM0.14 million in FYE 2021. In FYE 2022, there was no reversal of impairment loss.

12.3.10 PBT and PBT Margin

The details of the PBT and PBT margin are as follows:

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
PBT (RM'000)	235	4,313	8,955	6,047
PBT margin (%)	1.98	9.71	9.78	8.78

(i) FYE 2020 as compared to FYE 2019

PBT increased by RM4.08 million or 1,773.91% from RM0.23 million in FYE 2019 to RM4.31 million in FYE 2020 mainly due to the higher GP by RM4.39 million generated from our business. The increase in GP was partially offset by the increase in administrative staff cost, benefits and welfare by RM0.14 million and professional fees due to higher statutory audit fees and legal fees in relation to the acquisition of Unit 17 and Unit 19 by RM0.07 million in FYE 2020.

PBT margin had increased by 7.73% from 1.98% in FYE 2019 to 9.71% in FYE 2020, which was in line with the increase in the GP margin from 9.43% in FYE 2019 to 12.41% in FYE 2020, coupled with the increase in revenue from RM11.90 million in FYE 2019 to RM44.41 million in FYE 2020.

(ii) FYE 2021 as compared to FYE 2020

PBT increased by RM4.64 million or 107.66% from RM4.31 million in FYE 2020 to RM8.95 million in FYE 2021 mainly due to higher GP by RM5.47 million generated from our business. The increase in GP was partially offset by the increase in administrative staff cost, benefits and welfare by RM0.35 million and professional fees by RM0.36 million.

PBT margin had increased marginally from 9.71% in FYE 2020 to 9.78% in FYE 2021 despite a marginal decrease in GP margin from 12.41% in FYE 2020 to 11.99% in FYE 2021. This was mainly due to the increase in administrative expenses in proportion to the revenue in FYE 2021 being lower as compared to FYE 2020.

(iii) FYE 2022 as compared to FYE 2021

PBT decreased by RM2.91 million or 32.40% from RM8.96 million in FYE 2021 to RM6.05 million in FYE 2022, this was mainly due to the decrease in GP by RM1.02 million and decrease in other income by RM0.20 million. In addition, there was an increase in administrative expenses by RM1.49 million.

PBT margin had decreased by 1.00% from 9.78% in FYE 2021 to 8.78% in FYE 2022 despite an increase in GP margin from 11.99% in FYE 2021 to 14.46% in FYE 2022. This was mainly due to the increase in administrative expenses.

12. FINANCIAL INFORMATION (CONT'D)**12.3.11 Income tax expenses****(i) Income tax expenses and effective tax rate**

The details of the income tax expenses and effective tax rate are as follows:

	Audited			
	FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FYE 2022 RM'000
Taxation	48	1,107	2,223	1,725
Effective tax rate (%)	20.43	25.67	24.82	28.53
Statutory tax rate (%)	24.00	24.00	24.00	24.00

Premised on the above, the effective tax rate for the Group ranged from 20.43% to 28.53% during the FY Under Review. The analysis are as follows:

- (a) The effective tax rate for FYE 2019 was 20.43%, lower than the statutory tax rate of 24.00%. In view that our Company had a paid-up capital of less than RM2.50 million and had recorded a profit before tax of RM0.23 million. Hence, we were qualified for a lower statutory tax rate of 17.00% on our first RM0.50 million chargeable income.
- (b) Our effective tax rates for FYE 2020 and FYE 2021 were 25.67% and 24.82%, respectively. The effectively tax rates for FYE 2020 and FYE 2021 were higher than the statutory tax rate of 24.00%, this was mainly due to the non tax-deductible expenses such as legal fees, event expenses, compliance expenses related to our certifications, professional fees payable for our Listing and the under provision of deferred tax in FYE 2020 and FYE 2021.
- (c) Our effective tax rate for FYE 2022 was 28.53%, higher than the statutory tax rate of 24.00%. This was mainly due to the non tax-deductible expenses such as legal fees, event expenses and professional fees payable for our Listing in FYE 2022 as well as under provision of current tax expenses in previous financial year.

(ii) Additional tax payment and penalty paid

MBN Enterprise had incurred tax penalties in FYE 2020 and FYE 2021 of RM500 for year of assessment ("YA") 2019 and RM56,000 for YA 2020, respectively. The said tax penalties were due to the difference of more than thirty (30) percent between the MBN Enterprise's estimated income tax installments paid and actual income tax payable by MBN Enterprise to the Inland Revenue Board of Malaysia ("IRB") for the respective YA under Section 107B(4) of the Income Tax Act 1967 of Malaysia. The said difference was as a result of the underestimation of MBN Enterprise's financial performance. Subsequently, we had strengthened our internal monitoring to mitigate the risks of reoccurrences of such penalties.

Subsequent to the payment, saved for the letter received from the IRB dated 21 February 2023 in relation to the tax audit on MBN Enterprise for FYE 2018 to FYE 2021, there have been no actions or audit against MBN Enterprise by the IRB in relation to the above matter. To the best of our knowledge, the tax audit on MBN Enterprise is a routine audit undertaken by the IRB. On 2 March 2023 and 7 March 2023, MBN Enterprise had submitted all the required documents requested by the IRB. As at the LPD, the tax audit is still on-going.

12. FINANCIAL INFORMATION (CONT'D)**12.3.12 PAT and PAT Margin**

The details of the PAT and PAT margin are as follows:

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
PAT (RM'000)	187	3,206	6,732	4,322
PAT Margin (%)	1.57	7.22	7.35	6.28

Our PAT and PAT margin were generally consistent with our PBT and PBT margin during the FY Under Review after taking into account the effects of income tax expense.

12.3.13 Review of financial position**(i) Assets**

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Non-current assets				
PPE	691	1,178	1,817	1,636
ROU assets	449	1,489	2,763	2,715
Deferred tax assets	79	30	-	-
Deposit placed for life insurance policy	-	-	80	80
Total non-current assets	1,219	2,697	4,660	4,431
Current assets				
Inventories	2,403	3,254	5,085	4,310
Trade and other receivables	774	7,411	61	2,984
Cash and bank balances	329	288	6,398	8,999
Fixed deposit with a licensed bank	-	-	-	500
Total current assets	3,506	10,953	11,544	16,793
Total assets	4,725	13,650	16,204	21,224

(a) FYE 2020 as compared to FYE 2019

Non-current assets increased by RM1.48 million from RM1.22 million in FYE 2019 to RM2.70 million in FYE 2020 mainly due to additions in PPE such as renovation, cold room, machinery and equipment and a lorry amounting to RM0.49 million, as well as additions in ROU assets amounting to RM1.04 million for the acquisitions of Unit 17 and Unit 19.

Current assets increased by RM7.45 million from RM3.50 million in FYE 2019 to RM10.95 million in FYE 2020 mainly due to higher trade and other receivables of RM6.64 million. Trade receivables increased from RM0.70 million in FYE 2019 to RM2.35 million in FYE 2020, which was in line with our increase in revenue in FYE 2020. The increase in trade and other receivables was also attributable to the advance payments made to two of our Approved Suppliers, namely Supplier B (as stated in Section 7.17 (*Major Suppliers of the Group*) of this Prospectus) and Walet Murni Sdn Bhd, who are not our related parties, amounting to RM4.88 million, as they negotiated for advance payment to facilitate their sourcing and securing of raw bird's nests for

12. FINANCIAL INFORMATION (CONT'D)

us, due to our request for a substantial amount of raw bird's nests that meet our requirements in tandem with the growing demand from the PRC in FYE 2020, and both Approved Suppliers had become our major suppliers in the subsequent FYE 2021. In addition, inventories had also increased by RM0.85 million, as we have increased our export of RUCEBN to the PRC from 618kg in FYE 2019 to 9,384kg in FYE 2020.

(b) FYE 2021 as compared to FYE 2020

Non-current assets increased by RM1.96 million from RM2.70 million in FYE 2020 to RM4.66 million in FYE 2021 mainly due to additions in PPE such as renovation, computer and office equipment, cold room and machinery and equipment amounting to RM0.64 million, as well as additions in ROU assets amounting to RM1.27 million for the acquisitions of Unit 23 and Unit 25.

Current assets increased by RM0.59 million from RM10.95 million in FYE 2020 to RM11.54 million in FYE 2021. This was mainly due to the increase in cash and bank balances by RM6.11 million as a result of the increase in PBT in FYE 2021. Correspondingly, trade and other receivables reduced by RM7.35 million, due to zero (nil) trade receivables in FYE 2021 with payments from all customers fully received. The advance payments made to two suppliers, namely Supplier B (as stated in Section 7.17, *(Major Suppliers of the Group)*) and Walet Murni Sdn Bhd, who are Approved Suppliers and not our related party in FYE 2020, to facilitate their sourcing and securing of raw bird's nests for us, were also fully offset in FYE 2021 against their supplies of raw bird's nests to our Group. Subsequently, we did not provide any advance payments to our suppliers and we adopted the no advance payment policy. Nonetheless, we had recorded other receivables for our deposits and prepayments of RM0.06 million, mainly comprising of RM0.02 million of utilities expenses (e.g. electricity, water) deposits and RM0.03 million of insurance (e.g. fire, bulgary, medical, motor vehicle) prepayments.

Inventories had again increased in FYE 2021 by RM1.83 million due to the further increase in our export of RUCEBN to the PRC from 9,384kg in FYE 2020 to 18,763kg in FYE 2021, which was in line with the increase in revenue in FYE 2021. As at FYE 2021, our total inventories represented approximately 1,400kg of RUCEBN, where 550kg out of these 1,400kg of RUCEBN inventories were for the sales contract that yet to be fulfilled as at FYE 2021, that were due to be delivered within five (5) days in early January 2022, upon full payment from the customer.

(c) FYE 2022 as compared to FYE 2021

Non-current assets decreased by approximately RM0.23 million from RM4.66 million in FYE 2021 to RM4.43 million in FYE 2022 mainly due to the depreciation of PPE and ROU assets.

Current assets increased by RM5.25 million from RM11.54 million in FYE 2021 to RM16.79 million in FYE 2022. This was mainly due to the increase in cash and bank balances by RM2.60 million due to payments received from our PRC customers in FYE 2022. In addition, trade and other receivables had increased by RM2.92 million mainly due to the increase in trade receivables by RM2.29 million from sales to PRC customers towards the end of FYE 2022, the payment of deposit for the acquisition of New Facility amounting to RM0.30 million as well as the deposit of RM0.10 million paid for the acquisition of RCEBN processing company. In addition, we had fixed deposit with a licensed bank amounting to RM0.50 million in FYE 2022.

12. FINANCIAL INFORMATION (CONT'D)**(ii) Liabilities**

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Non-current liabilities				
Long-term borrowings	555	1,784	2,389	1,915
Deferred tax liabilities	-	-	144	173
Total non-current liabilities	555	1,784	2,533	2,088
Current liabilities				
Trade and other payables	2,456	5,929	824	1,303
Amount due to directors	750	756	-	-
Short-term borrowings	99	172	1,133	2,490
Current tax liabilities	16	954	927	234
Total current liabilities	3,321	7,811	2,884	4,027
Total liabilities	3,876	9,595	5,417	6,115

(a) FYE 2020 as compared to FYE 2019

Non-current liabilities increased by RM1.23 million from RM0.55 million in FYE 2019 to RM1.78 million in FYE 2020, due to term loans obtained for the acquisition of Unit 17 and Unit 19 for the expansion of our business premises.

Current liabilities increased by RM4.49 million from RM3.32 million in FYE 2019 to RM7.81 million in FYE 2020 mainly due to higher trade and other payables of RM3.47 million as a result of purchases of raw bird's nests of RM3.00 million in the 4th quarter of FYE 2020 of which payments were settled later in FYE 2021, as well as advances of RM0.45 million received from a related party, namely Nanyang Excel Sdn Bhd in FYE 2020. In addition, our tax payable had also increased by RM0.94 million due to the improved financial performance of the Group in FYE 2020.

(b) FYE 2021 as compared to FYE 2020

Non-current liabilities increased by RM0.75 million from RM1.78 million in FYE 2020 to RM2.53 million in FYE 2021, due to a term loan obtained for the acquisition of Unit 25 for the on-going expansion of our business premises. We had also recognised a deferred tax liability in FYE 2021 amounting to RM0.14 million.

Current liabilities decreased by RM4.93 million from RM7.81 million in FYE 2020 to RM2.88 million in FYE 2021 due to the decreases in trade and other payables by RM5.10 million and amount due to directors by RM0.75 million, as we had settled our payables within the credit period. On the other hand, our short-term borrowings increased by RM0.96 million which was in line with our utilisation of bankers' acceptance for our purchase of raw bird's nests.

(c) FYE 2022 as compared to FYE 2021

Non-current liabilities decreased by RM0.44 million from RM2.53 million in FYE 2021 to RM2.09 million in FYE 2022, mainly due to the repayment of long-term borrowings amounting to RM0.47 million in FYE 2022.

Current liabilities increased by RM1.15 million from RM2.88 million in FYE 2021 to RM4.03 million in FYE 2022. This was mainly due to short term borrowings increasing by RM1.36 million due to higher utilisation of bankers' acceptances for purchase of raw

12. FINANCIAL INFORMATION (CONT'D)

bird's nests in FYE 2022. Trade and other payables had also increased by RM0.48 million due to trade payable balances from purchases of raw bird's nest towards the end of FYE 2022. However, the increase of current liabilities was partially offset by current tax liabilities decreasing by RM0.70 million as our Group had paid the tax payable for FYE 2021 amounting to RM0.63 million in August 2022.

12.4 KEY FINANCIAL RATIOS

Our key financial ratios for the FY Under Review are as follows:

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
Trade receivables turnover (days) ⁽¹⁾	29	13	5	6
Trade payables turnover (days) ⁽²⁾	9	19	9	5
Inventory turnover (days) ⁽³⁾	50	27	19	29
Current ratio (times) ⁽⁴⁾	1.06	1.40	4.00	4.17
Gearing ratio (times) ⁽⁵⁾	0.77	0.48	0.33	0.29

Notes:

- (1) Computed based on average trade receivables of the respective financial years over total revenue of the respective financial years and multiplied by 365 days.
- (2) Computed based on average trade payables of the respective financial years over total costs of sales of the respective financial years and multiplied by 365 days.
- (3) Computed based on average inventories of the respective financial years over total cost of sales of the respective financial years and multiplied by 365 days.
- (4) Computed based on current assets over current liabilities as at the respective financial years.
- (5) Computed based on total borrowings over total equity as at the respective financial years.

12.4.1 Trade receivables turnover period

The trade receivables turnover period for the FY Under Review are as follows:

Processing and sales of EBN, specifically RUCBN

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Opening trade receivable	1,164	699	2,346	-
Closing trade receivable	699	2,346	-	2,287
Average trade receivable	932	1,523	1,173	1,144
Revenue	11,897	44,408	91,556	68,871
Trade receivable turnover (days) ⁽¹⁾	29	13	5	6

Note:

- (1) Computed based on average trade receivables of the respective financial years over total revenue of the respective financial years and multiplied by 365 days.

Generally, our normal credit terms granted by us to our customers are 14 days for our customers in the PRC and 30 days for our customers located in Malaysia. Credit period granted are assessed and approved on a case-by-case basis after taking into consideration various factors such as the background and creditworthiness (including payment history) of the customers, our business relationship with the customers as well as transaction volume and value. We have a credit control policy in the Finance and Accounts Standard Operating Procedures in place and the exposure to

12. FINANCIAL INFORMATION (CONT'D)

credit risk is monitored on an ongoing basis. We do not impose any penalties or charges on late payments from trade receivables.

For FYE 2019, our trade receivables turnover days was 29 days due to slower collections. These sales were from Malaysia and our export to Hong Kong prior to November 2019. In FYE 2020, FYE 2021 and FYE 2022, when we were predominantly involved in the business of exporting RUCBN to the PRC, our trade receivables turnover days were 13 days, 5 days and 6 days respectively.

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

	Net trade receivables as at 31 December 2022		Net trade receivables collections from 1 January 2023 up to the LPD		Balance net trade receivables as at the LPD	
	RM'000	% ⁽¹⁾	RM'000	% ⁽¹⁾	RM'000	% ⁽¹⁾
	(a)		(b)		(c) = (a) - (b)	
Within credit period	2,287	100.00	1,892	82.73	395	17.27
Exceeding credit period:						
- less than 30 days	-	-	-	-	-	-
- 31 to 60 days	-	-	-	-	-	-
- 61 to 90 days	-	-	-	-	-	-
- over 90 days	-	-	-	-	-	-
Total	2,287	100.00	1,892	82.73	395	17.27

Note:

(1) Based on our net trade receivables amounting to RM2.29 million as at 31 December 2022.

As at 31 December 2022, our Group's net trade receivables stood at approximately RM2.29 million of which all were within the credit period. As at the LPD, we have collected RM1.89 million or 82.73% of our net trade receivables outstanding as at 31 December 2022. The remaining balance of approximately RM0.40 million or 17.27% of our net trade receivables has yet to be collected. However, our Group has not encountered any major disputes with our trade receivables taking into consideration the good business relationship with these customers. Hence, our Group is of the opinion that the remaining outstanding net trade receivables are recoverable and will monitor closely the recoverability of the said receivables on a regular basis, and when required, provide for impairment of these receivables.

12.4.2 Trade payables turnover period

The trade payables turnover period for the FY Under Review are as follows:

Processing and sale of EBN, specifically RUCBN

	Audited			
	FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FYE 2022 RM'000
Opening trade payable	-(1)	556	3,500	545
Closing trade payable	556	3,500	545	1,023
Average trade payable	278	2,028	2,023	784
Cost of Sales	10,775	38,899	80,575	58,911
Trade payable turnover (days) ⁽²⁾	9	19	9	5

Notes:

(1) Our Group had paid all their trade payables at that point of time.

(2) Computed based on average trade payables of the respective financial years over total costs of sales of the respective financial years and multiplied by 365 days.

12. FINANCIAL INFORMATION (CONT'D)

The normal credit terms granted to the Group is 14 days.

In FYE 2019, our trade payables turnover period was 9 days and subsequently increased to 19 days in FYE 2020. The increase was mainly due to the trade transactions (i.e. purchase of raw bird's nests) balances with related parties, namely CVW Ventures and Nanyang Excel Sdn Bhd, amounting to a total of RM1.50 million which we had fully settled in FYE 2021. In FYE 2021 and FYE 2022, we are able to settle our trade payables within the credit period, resulting in an improvement to 9 days and 5 days, respectively, for our trade payables turnover period.

The Group's trade payables as at 31 December 2022 were within the credit period. As at the LPD, we have settled RM1.02 million or 100.00% of our trade payables outstanding as at 31 December 2022. Hence, there are no ageing analysis and subsequent payment information disclosed.

As at the LPD, there are no disputes in respect of any trade payables and no legal action has been initiated by any of our suppliers to demand for payment.

12.4.3 Inventory turnover period

The inventory turnover period for the FY Under Review are as follows:

	Audited			
	FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FYE 2022 RM'000
Raw materials	-	-	291	-
Finished goods	2,403	3,254	4,794	4,310
Inventories	2,403	3,254	5,085	4,310
Opening inventories	565	2,403	3,254	5,085
Closing inventories	2,403	3,254	5,085	4,310
Average inventories	1,484	2,829	4,170	4,698
Cost of Sales	10,775	38,899	80,575	58,911
Inventory turnover (days) ⁽¹⁾	50	27	19	29

Note:

(1) Computed based on average inventories of the respective financial years over total cost of sales of the respective financial years and multiplied by 365 days.

Our inventory comprises solely bird's nest which are considered high value goods, therefore in general, we prefer not to maintain high levels of inventory, to reduce and mitigate risks of misappropriation or financial losses from physical damages. Nevertheless, due to our business growth upon receiving approval from GACC in September 2019, with our revenue increasing from RM11.90 million in FYE 2019 to RM44.41 million in FYE 2020 to RM91.56 million in FYE 2021 and subsequently decrease to RM68.87 million in FYE 2022, it is necessary for appropriate levels of inventories to be maintained in order to ensure smooth and uninterrupted operations. Our inventory level at the end of our financial year is usually maintain for half a month to a month of supply, after taking into consideration the seasonality factors of our business and the estimated demand from our customers.

Upon obtaining approval from the GACC in September 2019, we maintained a higher level of closing inventories amounting to RM2.40 million in FYE 2019, in order to cater for the higher demand of RUCBN from the PRC. As a result, we recorded an inventory turnover of 50 days in FYE 2019.

In FYE 2020, our inventory turnover decreased from 50 days in FYE 2019 to 27 days in FYE 2020, despite an increase in average value of inventories by RM1.35 million, which was due to the increase in cost of sales from RM10.78 million in FYE 2019 to RM38.90 million in FYE 2020.

12. FINANCIAL INFORMATION (CONT'D)

In FYE 2021, our inventory turnover further decreased from 27 days in FYE 2020 to 19 days in FYE 2021, despite a further increase in average value of inventories of RM1.34 million, which was due to the increase in cost of sales from RM38.90 million in FYE 2020 to RM80.58 million in FYE 2021.

In FYE 2022, our inventory turnover increased from 19 days in FYE 2021 to 29 days in FYE 2022 which was due to the higher average value of inventories and a decrease in cost of sales from RM80.58 million in FYE 2021 to RM58.91 million in FYE 2022.

12.4.4 Current ratio

The current ratio for the FY Under Review are as follows:

	Audited			
	FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FYE 2022 RM'000
Current assets	3,506	10,953	11,544	16,793
Current liabilities	3,321	7,811	2,884	4,027
Net current assets	185	3,142	8,660	12,766
Current ratio (times) ⁽¹⁾	1.06	1.40	4.00	4.17

Note:

(1) Computed based on current assets over current liabilities as at the respective financial years.

Our current ratio had trended upwards over the FY Under Review. It grew from 1.06 in FYE 2019 to 1.40 in FYE 2020, due to the increase in trade and other receivables by RM6.64 million. In FYE 2021, our current ratio improved to 4.00 in FYE 2021 as compared to 1.40 in FYE 2020. This was due to the increase in inventories of RM1.83 million as a higher level of inventory was maintained, increase in cash and bank balances of RM6.11 million, as well as we were also able to settle our trade payables promptly that had reduced our trade payables by RM5.10 million in FYE 2021.

In FYE 2022, our current ratio had improved from 4.00 times to 4.17 times. This was mainly due to the increase in net current assets as a result of the increase in cash and bank balances by RM2.60 million and the increase in trade receivables by RM2.29 million.

12.4.5 Gearing ratio

The gearing ratio for the FY Under Review are as follows:

	Audited			
	FYE 2019 RM'000	FYE 2020 RM'000	FYE 2021 RM'000	FYE 2022 RM'000
Total borrowings	654	1,956	3,522	4,405
Total equity	849	4,055	10,787	15,109
Gearing ratio (times) ⁽¹⁾	0.77	0.48	0.33	0.29

Note:

(1) Computed based on total borrowings over total equity as at the respective financial years.

Our total borrowings had increased by RM1.30 million from FYE 2019 to FYE 2020, due to the additional term loans for our acquisition of Unit 17 and Unit 19. In FYE 2021, our total borrowings

12. FINANCIAL INFORMATION (CONT'D)

had increased by RM1.57 million due to the term loan for the acquisition of Unit 25 as well as our utilisation of bankers' acceptance for purchases of raw bird's nests.

On the contrary, our gearing ratio had been decreasing from 0.77 in FYE 2019 to 0.48 in FYE 2020, to 0.33 in FYE 2021 and to 0.29 in FYE 2022. This was due to the increase in retained earnings by RM3.21 million in FYE 2020, RM6.73 million in FYE 2021 and RM4.32 million in FYE 2022, which was in line with the increase in profit after tax for the FY Under Review.

12.5 SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL PERFORMANCE

Section 9 (*Risk Factors*) details a number of risk factors relating to our business and the industry in which we operate. Our Group's financial condition and results of operations have been and will continue to be affected by a number of these factors, the most significant of which include but not limited to the following:

(i) We are highly dependent on the approval from the GACC to export to major customers based in the PRC

Our business is highly dependent on the approval from the GACC in order for us to operate and export our RUCEBN products to the PRC. Any failure to renew the approval would have an adverse effect on our business operations and financial performance.

The GACC approval requires renewals every five (5) years, of which the conditions may change in the future, or we are unable to comply with the updated terms and conditions in the future. While our Group adheres to current regulations and operational protocols as imposed by the PRC government, any changes to these in the future are factors beyond our control. There is no assurance that we will continue to be able to renew the GACC approval in the future should such events occur.

(ii) We are highly dependent on certain major customers based in the PRC

As at the LPD, we are one (1) of the three (3) GACC-approved RUCEBN exporters in Malaysia, our business is tied to the PRC market, more specifically, to the list of GACC-approved RUCEBN importers in the PRC. For the FYE 2019, FYE 2020, FYE 2021 and FYE 2022, our revenue generated from our customers in the PRC accounted for 26.02%, 99.58%, 99.38% and 98.55% of our total revenue, respectively. As we have no control over the prospects and success of our customers in the PRC, our financial performance may be adversely affected if they face financial difficulties or economic downturns.

With the PRC being one of the largest EBN importing countries in the world, it is inevitable that this dependence exists. Nevertheless, as part of our future plans, our Group anticipates exporting RUCEBN to Vietnam as well as generating additional revenue from Malaysia by venturing into RCEBN and ready-to-drink bird's nest products.

(iii) Our operations are dependent on the availability of bird's nests from our Approved Suppliers

The cost of purchasing raw bird's nests from our Approved Suppliers is our Group's main cost component, accounting for 97.91%, 98.23%, 98.08% and 97.36% of our cost of sales respectively for FYE 2019, FYE 2020, FYE 2021 and FYE 2022. Therefore, our business operations are dependent on the consistency of supply and availability of bird's nests as our raw materials. As at the LPD, we have 18 Approved Suppliers with 224 swiftlet house with identification registration and myGAP certification from DVS, from whom we source our raw bird's nests, we may face raw bird's nests shortages if any of our Approved Suppliers fail to maintain their certifications or unable to supply raw bird's nests to us that meet our quality requirements.

12. FINANCIAL INFORMATION (CONT'D)

One of our future plans is to set up bird's nest collection centres in East Malaysia which will expand our supplier base, strengthen our source of raw bird's nests supply and mitigate risks associated with disruptions in supplying the raw bird's nests.

As at the LPD, our Group has not faced any raw bird's nests supply shortages and we have been able to fulfil our customers' demands.

(iv) Our products and operations are subject to registration and periodic renewal

As a processor and exporter of RUCBN, our products and operations are required to meet the requirements by the relevant government authorities. These include obtaining the necessary certifications such as the VHM Certificate from the DVS, GMP Certificate and MeSTI certificate from the MOH, and the export permit from MAQIS. We are dependent on these certifications to operate and export our RUCBN products and hence failure to renew these certifications could have an adverse effect on our business operations and financial performance. There is no assurance that we will continue to be able to renew the required certificates in the future.

In line with that, internal compliance with policies and procedures established is what we strive for and the dedication of our workforce, led by our key senior management team, to this matter is expected to reasonably mitigate the associated risks. The supply chain management system which we had invested in, and have enhanced via customisations or upgrades from time to time as and when required, will also help to facilitate the necessary accurate recording throughout our business process flow.

(v) Competition in the RUCBN industry

As at the LPD, we face competition in the export of RUCBN to the PRC, where we compete with the other two (2) GACC-approved companies in Malaysia offering RUCBN. We compete with our competitors in terms of pricing, range and quality of products as well as delivery timeline.

While we strive to remain competitive by leveraging on our competitive strengths, there is a possibility of new entrants which may intensify the level of competition in the industry, potentially resulting in material and adverse impact on our business and financial performance.

(vi) Changes in regulatory, political, fiscal and economic conditions of Malaysia and the PRC

Our Group will be affected should there be any form of regulatory, fiscal and economic changes in Malaysia and the PRC such as changes in interest rates, tax rates, tax laws, duties as well as any adverse effects in political influences. Our business and financial performance may be adversely affected as there is no assurance that we will be able to comply with all of these changes should they occur, especially those which may be newly introduced by the relevant authorities.

(vii) We are exposed to foreign exchange rate fluctuations

Our export sales accounted for approximately 43.03%, 99.58%, 99.38% and 98.55% of our revenue for FYE 2019, FYE 2020, FYE 2021 and FYE 2022 respectively and are predominantly denominated in RMB. This subjects us to currency exchange rate risks that are affected by a myriad of factors beyond our control, which include but are not limited to the political and economic climates of Malaysia and the world.

A sensitivity analysis performed on our Group's foreign currency financial assets as at 31 December 2022 indicates that, in the event of a 7% fluctuation of RM against RMB, our PAT for FYE 2022 would fluctuate by RM0.13 million.

12. FINANCIAL INFORMATION (CONT'D)

As at the LPD, we do hedge our foreign currency positions in RMB but still there can be no assurance that the use of such financial instruments will completely eliminate our exposure to adverse foreign currency exchange movements. In addition, we had, to a certain degree, taken foreign currency rate fluctuations into consideration during pricing negotiations with our customers in the PRC.

(viii) Significant accounting estimates and judgement

The preparation of financial statements in conformity with the MFRS/IFRS may require us to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. In addition, actual results may differ from these estimates.

We continuously review our estimates and underlying assumptions accordingly. However, any uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

(ix) Changes in accounting standards and policies

Our financial statements are prepared in accordance with the MFRS, IFRS and requirements of the Act. Consequently, any change in the relevant MFRS and IFRS may have an impact on the amounts reported and disclosure requirements.

12.6 LIQUIDITY AND CAPITAL RESOURCES**12.6.1 Working capital**

We require working capital to finance our daily operations, mainly for the purchase of raw bird's nests and payment of staff cost.

Our Group has been financing our growth through a combination of internal and external sources of funds. The former comprises our shareholders' equity and cash generated from operating activities whilst the latter mainly comprises bank borrowings and credit facilities from licensed financial institutions and credit terms provided by our contractors and suppliers.

As at 31 December 2022 (based on the latest audited consolidated statements of financial position), we have:

- cash and bank balances of RM9.00 million;
- fixed deposit with a licensed bank of RM0.50 million; and
- bank borrowings of RM4.41 million.

Our Directors are of the opinion that our Group will have adequate working capital to meet our present and foreseeable requirements for a period of 12 months from the date of this Prospectus based on:

- (i) the amount of funds required for our daily operations for the next 12 months from the date of this Prospectus;
- (ii) the expected funds to be generated from operating activities for the same period;
- (iii) the amount of cash and bank balances that is available for our operations. We have RM9.00 million as at 31 December 2022; and
- (iv) we can apply for credit facilities and bank borrowings, if required.

12. FINANCIAL INFORMATION (CONT'D)**12.6.2 Cash flow**

The table below sets out the summary our historical audited combined and consolidated statements of cash flows for the FY Under Review, which had been extracted from the Accountants' Report as set out in Section 13 of this Prospectus.

	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Net cash (for)/from operating activities	(439)	(90)	9,690	2,297
Net cash for investing activities	(151)	(1,733)	(2,190)	(79)
Net cash from/(for) financing activities	434	1,782	(1,390)	383
Net changes	(156)	(41)	6,110	2,601
Cash and cash equivalents at the beginning of financial year	485	329	288	6,398
Cash and cash equivalents at the end of financial year	329	288	6,398	8,999

We set out below the commentaries to our audited combined and consolidated statements of cash flows during the FY Under Review:

(i) FYE 2019**(a) Net cash for operating activities**

We generated operating cash flows before working capital changes of RM0.36 million. However, our net cash outflow for operating activities was RM0.44 million after accounting for the increase in inventories of RM1.84 million. Although there were no unfulfilled sales contracts as at FYE 2019, the higher level of inventories was maintained to ensure smooth and uninterrupted operations, in anticipation of higher demand for RUCBN, upon obtaining the approval from GACC to export RUCBN to the PRC in September 2019. This cash outflow was partially offset by:

- The decrease in trade and other receivables of RM0.44 million as our new customers in the PRC had made payments promptly; and
- The increase in trade and other payables of RM0.64 million as a result of higher purchases of raw bird's nests.

(b) Net cash for investing activities

We recorded net cash outflow for investing activities of RM0.15 million mainly due to:

- Capital expenditure for renovation works on Unit 17 and Unit 23 amounting to RM0.09 million; and
- Purchases of computer and equipment, furniture and fittings, machinery and equipment amounting to RM0.06 million.

(c) Net cash from financing activities

We recorded net cash inflow from financing activities of RM0.43 million mainly due to the drawdown of a term loan amounting to RM0.54 million for working capital purposes. It was partially offset by the repayment of term loans of RM0.08 million which were previously obtained for working capital purposes.

12. FINANCIAL INFORMATION (CONT'D)**(ii) FYE 2020****(a) Net cash for operating activities**

We generated operating cash flows before working capital changes of RM4.56 million. However, our net cash outflow for operating activities was RM0.09 million after accounting for key items as set out below:

- The increase in trade and other receivables of RM6.63 million mainly due to increase of RM1.65 million of two export sale transactions to the PRC towards the end of FYE 2020 and the general lead time of 14 days for our PRC customers to process payments, as well as an increase in other receivables as we had advanced RM4.88 million made to two suppliers, namely Supplier B and Walet Murni Sdn Bhd, which facilitate their sourcing and securing of raw bird's nests for us; and
- The increase in inventories of RM0.85 million as we had increased our inventory levels in anticipation of the continued increasing demand for our RUCBN from the PRC.

This cash outflow was partially offset by the increase in trade and other payables of RM3.00 million, due to higher purchases of raw bird's nests in the last quarter of FYE 2020.

(b) Net cash for investing activities

We recorded net cash outflow for investing activities of RM1.73 million mainly due to:

- Purchase of Unit 17 and Unit 19 amounting to RM1.06 million as part of the expansion of our business premises;
- Capital expenditure for renovation works on Unit 23 amounting to RM0.20 million; and
- Purchases of computer and office equipment, furniture and fittings, cold room, machinery, equipment and motor vehicle amounting to RM0.47 million.

(c) Net cash from financing activities

We recorded net cash inflow from financing activities of RM1.78 million mainly due to the drawdown of term loans amounting to RM1.35 million for the acquisition of Unit 17 and Unit 19 and the receipt of interest-free advances from Nanyang Excel Sdn Bhd and CVW Ventures amounting to RM0.47 million, that were fully settled in FYE 2021. The cash inflow was partially offset by the repayment of term loans of RM0.05 million.

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

We generated operating cash flows before working capital changes of RM9.19 million. Our net cash inflow from operating activities was RM9.69 million mainly due to the decrease in trade and other receivables of RM7.40 million due to the absence of any outstanding payments from our customers in the PRC. We had also fully offset the advances made to suppliers in FYE 2021 against their supplies of raw bird's nests to our Group. The cash inflow was however partially offset by:

12. FINANCIAL INFORMATION (CONT'D)

- The decrease in trade and other payables of RM2.90 million as we settled our payables more promptly;
- The increase in inventories of RM1.83 million as demand from our customers in the PRC remained positive and our processing output had also increased; and
- Net payment of tax of RM2.07 million and net payment of term loan and bankers' acceptance interest of RM0.10 million.

(b) Net cash for investing activities

We recorded net cash outflow for investing activities of RM2.19 million mainly due to:

- Purchase of Unit 23 and Unit 25 amounting to RM1.31 million as part of our continued expansion of business premises;
- Capital expenditure for renovation works on Unit 25 amounting to RM0.42 million; and
- Purchases of computer and office equipment, furniture and fittings, cold room, machinery and equipment and motor vehicle amounting to RM0.46 million.

(c) Net cash for financing activities

We recorded net cash outflow for financing activities of RM1.39 million mainly due to the repayment of RM2.20 million for the interest-free advances obtained from related parties, namely CVW Ventures, MLCL Construction, Gentle Rainbow and Nanyang Excel Sdn Bhd, for the purpose of working capital and also repayment of all interest-free advances from Directors amounting to RM0.75 million. Additionally, there were repayments of term loans of RM0.18 million which were previous obtained for working capital purposes and to finance the purchase of Unit 17, Unit 19 and Unit 25.

On the flip side, the cash outflows above were partially offset by:

- The drawdown of bankers' acceptance of RM1.00 million for purchases of raw bird's nests; and
- The drawdown of term loans of RM0.75 million for the acquisition of Unit 25.

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

We generated operating cash flows before working capital changes of RM6.52 million. Our net cash inflow from operating activities was RM2.30 million mainly due to:

- Net payment of tax of RM2.39 million;
- The increase in trade and other receivables of RM2.92 million mainly due to the increase in trade receivables by RM2.29 million, payment of deposit for the acquisition of New Facility amounting to RM0.30 million and payment of deposit for the acquisition of RCEBN processing company amounting to RM0.10 million; and

12. FINANCIAL INFORMATION (CONT'D)

- The decrease in inventories of RM0.78 million as we completed an export sales to the PRC at the end of FYE 2022.

(b) Net cash for investing activities

We recorded net cash outflow for investing activities of RM0.08 million mainly due to the capital expenditure for renovation works on Unit 25 amounting to approximately RM0.08 million.

(c) Net cash from financing activities

We recorded net cash inflow from financing activities of RM0.38 million mainly due to the drawdown of bankers' acceptance amounting to RM1.42 million for our Group's purchases of raw bird's nests. It was partially offset by cash outflow amounting to RM0.54 million for the repayment of term loans obtained to finance the purchases of Unit 17, Unit 19 and Unit 25. In addition, we had the placement of fixed deposit with a licensed bank amounting to RM0.50 million.

(v) Restriction on the ability of our Subsidiaries to transfer funds to our Company

We do not have any specific legal, financial or economic restriction on the ability of our Subsidiaries to transfer funds to our Company in the form of cash dividends, loans or advances to meet the cash obligations of our Company.

12.6.3 Borrowings and indebtedness

Our Group has the following borrowings:

Type of borrowings	Audited			
	FYE 2019	FYE 2020	FYE 2021	FYE 2022
	RM'000	RM'000	RM'000	RM'000
Short term				
• Bankers' acceptance	-	-	1,000	2,422
• Term loans	99	172	133	68
Sub-total	99	172	1,133	2,490
Long term				
• Term loans	555	1,784	2,389	1,915
Sub-total	555	1,784	2,389	1,915
Total	654	1,956	3,522	4,405

The details are as follows:

- bankers' acceptance was used in relation to our purchase of raw bird's nests; and
- both short term and long-term loans were used for both working capital purposes and the purchase of Unit 17, Unit 19 and Unit 25.

12. FINANCIAL INFORMATION (CONT'D)

The details of the borrowings are as follows:

As at 31 December 2022	Fixed or floating rate	Weighted average effective interest rate %	Amount granted RM'000	Credit limit utilised RM'000	Credit limit unutilised RM'000
Bankers' acceptance	Floating	5.11%	3,100	2,422	678
Term loans	Fixed and floating	4.55%	2,079	2,079	-
Total			5,179	4,501	678

The maturity profile of our borrowings are as follows:

	Audited As at 31 December 2022 RM'000
Within 1 year	2,490
Within 1 to 2 years	80
Within 2 to 5 years	264
More than 5 years	1,571
Total borrowings	4,405

As at the LPD, we do not have any borrowings which are non-interest bearing and/ or in foreign currency. We have not defaulted on payments of principal sums and/ or interests in respect of any of our borrowings during the FY Under Review and the subsequent financial period up to the LPD.

12.6.4 Breach of terms and conditions or covenants associated with a credit arrangement or bank loan

As at the LPD, our Group is not in breach of any terms and conditions or covenants associated with credit arrangement or bank loan or any event of default being called, which can materially affect our Group's financial position and results or business operations, or the investments by holders of securities in our Company.

12.6.5 Treasury policies and objectives

Our internal source of funds for our operations are shareholders' equity and cash generated from our operations and external sources of funds.

Our cash and cash equivalents are mainly denominated in RM, with approximately RM0.22 million of cash denominated in RMB as at 31 December 2022.

Our external source of funds is mostly bank borrowings. The details of our borrowings are provided in Section 12.6.3 (*Borrowings and indebtedness*) of this Prospectus. The decision to either use banking facilities or internally generated funds for our operations depends on the following factors such as:

- our current cash balance;
- expected cash inflows;
- future working capital requirements;
- future capital expenditure requirements; and
- interest rates of credit facilities or bank borrowings.

Our minimum cash reserves at any point in time is dependent on factors such as the expected cash inflows, our future working capital requirements and capital expenditure plans.

12. FINANCIAL INFORMATION (CONT'D)

Our Group has financial instruments, particularly the foreign currency forward contracts, for hedging purposes, however, as at the LPD, we do not have any exposure to any financial instruments for hedging purposes. Our management will continue to assess the need for and decide on the use of hedging instruments from time to time.

12.6.6 Material capital commitment

The details of our material capital commitment as at the LPD are as follows:

	RM'000
Approved and contracted:	
• Purchase of land and buildings adjacent to current business premises	2,664 ⁽¹⁾
• Balance purchase consideration for the proposed acquisition of 80% equity interest in Guangxi Nan Yang	251 ⁽²⁾
• Capital contribution towards the 80% equity interest in Guangxi Nan Yang	650 ⁽³⁾
Total	3,565

Note:

- (1) According to our future plans, we intend to acquire eight (8) additional shop-office units with total built-up of 25,344 sq. feet adjoining to our existing business premises for an estimated consideration of RM2.96 million. As at the LPD, RM0.30 million, being 10% earnest deposit, has been paid to Koperasi Polis. As such the remaining estimated purchase sum payable of RM2.66 million has been recorded as a material commitment as at the LPD. At the time we receive the IPO proceeds, the purchase price for the New Facility may have already been paid for by using internally generated funds and/or bank borrowings.
- (2) Computed based on the balance purchase consideration of RMB386,000 as stated in the Equity Transfer Agreement and the BNM exchange rate as at LPD (equivalent to approximately RM0.25 million) which will be funded by IPO proceeds.
- (3) Computed based on the capital contribution of RMB1,000,000 as stated in the Equity Transfer Agreement and the BNM exchange rate as at LPD (equivalent to approximately RM0.65 million) which will be funded by our internally generated funds.

12.6.7 Governmental, legal or arbitration proceedings

Neither we nor any of our Subsidiaries are engaged in any governmental, legal or arbitration proceedings including those relating to bankruptcy, receivership or similar proceedings, either as plaintiff or defendant, and our Directors are not aware of any proceeding pending or threatened or of any fact likely to give rise to any proceeding, which have or may have a material or significant effect on our financial position or profitability in the 12 months immediately preceding the date of this Prospectus.

12.6.8 Material Litigation and Contingent liabilities**(i) Material Litigation**

As at the LPD, we are not involved in any legal action, proceeding, prosecution or arbitration, either as plaintiff or defendant, which may have a material adverse effect on the business or our financial position, and our Directors are not aware of any legal proceeding, pending or threatened, or of any fact to give rise to any legal proceeding which may have a material adverse effect on our business or financial position.

(ii) Contingent Liabilities

As at the LPD, we do not have any contingent liabilities which, upon becoming enforceable, may materially and adversely affect our financial position and business.

12. FINANCIAL INFORMATION (CONT'D)

12.7 TREND INFORMATION

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

- (i) known trends, uncertainties, demands, commitments or events that have had or that we reasonably expect to have, a material favourable or unfavourable impact on our Group's financial performance, position, operations liquidity and capital resources, other than those discussed in this section and in Section 7 (*Business Overview*) and Section 9 (*Risk Factors*) of this Prospectus;
- (ii) material commitment for capital expenditure save as disclosed in Section 12.6.6 (*Material Capital Commitment*) 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 for those that had been disclosed in this section and in Section 7 (*Business Overview*) and Section 9 (*Risk Factors*) of this Prospectus;
- (iv) known trends, demands, commitments, events or uncertainties that had resulted in a material impact on our revenue and/or profits, save for those that had been discussed in this section and in Section 7 (*Business Overview*) and Section 9 (*Risk Factors*) of this Prospectus; and
- (v) known circumstances, 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 for those that had been disclosed in this section and in Section 7 (*Business Overview*) and Section 9 (*Risk Factors*) of this Prospectus.

12.8 ORDER BOOK

Due to the nature of our business, we do not have any long-term agreements with our customers, and therefore we do not maintain an order book. We generate our revenue as and when we deliver our products based on sales contracts entered into.

Our sales contract generally contained the following salient trade terms:-

- (i) details of the seller (being MBN Enterprise);
- (ii) details of the buyer (customer);
- (iii) product specification (RUCEBN), price per unit, weight and quantity to be purchased;
- (iv) packing requirements for RUCEBN;
- (v) quality of products specifications (grades);
- (vi) trade terms which comprising the seller's and buyers' responsibilities to bear all the cost relating to insurance coverage, taxes and duties in respect of the products;
- (vii) terms of payment;
- (viii) terms of delivery;
- (ix) inspection of products by GACC and buyer's compliance to obtain GACC import approval; and
- (x) any dispute under this sales contract shall be resolved through China International Economic and Trade Arbitration Commission

As at the LPD, all our sales contracts have been fulfilled.

12. FINANCIAL INFORMATION (CONT'D)

12.9 DIVIDEND POLICY

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

For the FY Under Review, there were no dividends declared or paid. We also do not intend to pay or declare any dividend prior to our Listing.

The level of dividends should also not be treated as an indication of our Group's future dividend policy. In determining dividends in respect of subsequent financial years, consideration will be given to maximising shareholders' value.

Our ability to declare and pay interim dividends as well as to recommend final dividends are subject to the discretion of our Board. In addition, as an investment holding company, our income, and therefore our ability to pay dividends will depend on the dividends or other distributions that we receive from our Subsidiaries. Hence, our Group's ability to pay dividends or make other distributions to our shareholders will depend upon factors such as:

- (i) the availability of distributable profits and cash flow;
- (ii) our operating results and financial performance;
- (iii) our financial condition;
- (iv) our projected level of capital expenditure and other investment plans; and
- (v) level of our cash and financing commitments, if any.

There is no dividend restriction being imposed on our Group currently, save for the restriction that may be imposed under our Group's loan facilities which we may subject to. As at the LPD, our Group's financiers comprised of CIMB Islamic Bank Berhad, United Overseas Bank (Malaysia) Berhad and Alliance Bank (Malaysia) Berhad of which, CIMB Islamic Bank Berhad and Alliance Bank (Malaysia) Berhad have imposed a dividend restriction stating that a written consent is required from the banks before our Group could declare and pay any dividend.

We will also need to obtain our shareholders' approval for any final dividend for the year. No inference should or can be made from any of the statements above as to our actual future profitability and our ability to pay dividends in the future.

12.10 TAXATION

Tax on a company's profits is a final tax. Hence, any dividends that are paid to shareholders are not subject to tax in the hands of shareholders.

Further, dividends that are paid to shareholders that are non-tax residents in Malaysia are also not subject to any withholding taxes.

12.11 SIGNIFICANT CHANGES

Save as disclosed in Section 7.21 (*Interruptions to Business and Operations and Implications to Our Business Operations*) and Section 9.1.5 (*Our business may be affected by the spread or outbreak of COVID-19 or any other contagious or virulent diseases*) of this Prospectus in relation to interruptions to our business and operations pursuant to the COVID-19 pandemic, there are no other significant changes that have occurred which may have a material effect on our financial position and results of operations since 31 December 2022 and up to the LPD.

12. FINANCIAL INFORMATION (CONT'D)

12.12 REPORTING ACCOUNTANT'S REPORT ON THE COMPILATION OF THE PRO FORMA STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022



Crowe Malaysia PLT
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2 June 2023

The Board of Directors
MYMBN Berhad
No. 17, 19, 21, 23 & 25, Jalan Melaka Raya 26
Taman Melaka Raya
75000 Melaka

Dear Sirs

MYMBN BERHAD ("MYMBN" OR "THE COMPANY") REPORT ON THE COMPILATION OF PRO FORMA STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

We have completed our assurance engagement to report on the compilation of pro forma statements of financial position of MYMBN and its subsidiaries (collectively known as the "Group") as at 31 December 2022 and the related notes (as set out in Appendix A which we have stamped for the purpose of identification) prepared by the Board of Directors of the Company for inclusion in the prospectus in connection with the listing of and quotation for the entire enlarged issued share capital of MYMBN on the ACE Market of Bursa Malaysia Securities Berhad ("the Listing").

The applicable criteria on the basis of which the Board of Directors of the Company have compiled the pro forma statements of financial position are described in Note 3 of Appendix A. The pro forma statements of financial position is prepared in accordance with the requirements of Chapter 9 of the Prospectus Guidelines issued by the Securities Commission Malaysia ("the Prospectus Guidelines") and the Guidance Note for Issuers of Pro Forma Financial Information issued by the Malaysian Institute of Accountants ("Guidance Note").

The pro forma statements of financial position has been compiled by the Board of Directors of the Company to illustrate the impact of the events or transactions as set out in Note 5 of Appendix A as if the events have occurred or the transactions have been undertaken on 31 December 2022. As part of this process, information about the Group's financial position has been extracted by the Board of Directors of the Company from the Group's audited statements of financial position as at 31 December 2022.

THE BOARD OF DIRECTORS' RESPONSIBILITIES

The Board of Directors of the Company is responsible for compiling the pro forma statements of financial position on the basis as set out in Note 3 of Appendix A and in accordance with the requirements of the Prospectus Guidelines.

12. FINANCIAL INFORMATION (CONT'D)**REPORTING ACCOUNTANTS' INDEPENDENCE AND QUALITY CONTROL**

We have complied with the independence and other ethical requirement with the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants ("By-Laws") and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standard 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 or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and accordingly maintains a comprehensive system of quality management 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 statements of financial position has been compiled, in all material respects, by the Board of Directors of the Company on the basis as set out in Note 3 of Appendix A and in accordance with the requirements of the Prospectus Guidelines and the Guidance Note.

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 of the Company has compiled, in all material respects, the pro forma statements of financial position on the basis set out in Note 3 of Appendix A and in accordance with the requirements of the Prospectus Guidelines.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinion on any historical financial information used in compiling the pro forma 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 statements of financial position.

The purpose of pro forma 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.

12. FINANCIAL INFORMATION (CONT'D)**REPORTING ACCOUNTANTS' RESPONSIBILITIES (CONT'D)**

A reasonable assurance engagement to report on whether the pro forma statements of financial position has been compiled, in all material respects, on the basis set out in Note 3 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 of the Company in the compilation of the pro forma 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 statements of financial position reflects the proper application of those adjustments to the unadjusted financial information.

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

The engagement also involves evaluating the overall presentation of the pro forma 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 statements of financial position has been compiled, in all material respects, on the basis set out in Note 3 of Appendix A and in accordance with the requirements of the Prospectus Guidelines.

OTHER MATTER

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

Yours faithfully

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

Melaka

Piong Yew Peng
03070/06/2023 J
Chartered Accountant

12. FINANCIAL INFORMATION (CONT'D)

Appendix A

MYMBN BERHAD

Registration No: 202201011844 (1457541-U)

PRO FORMA STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

NOTE	As At 31.12.2022* RM'000	Adjustment For Public Issue RM'000	Pro Forma I After Public Issue RM'000	Adjustment for Utilisation of Proceeds RM'000	Pro Forma II After Pro Forma I and Utilisation of Proceeds RM'000
ASSETS					
NON-CURRENT ASSETS					
6.1	1,636	-	1,636	2,804	4,440
	2,715	-	2,715	-	2,715
	80	-	80	-	80
	4,431		4,431		7,235
CURRENT ASSETS					
	4,310	-	4,310	-	4,310
	2,984	-	2,984	-	2,984
	500	-	500	(5,804)	500
6.2	8,999	20,580	29,579		23,775
	16,793		37,373		31,569
	21,224		41,804		38,804
TOTAL ASSETS					
EQUITY AND LIABILITIES					
EQUITY					
6.3	10,800	20,580	31,380	(1,048)	30,332
	(10,300)	-	(10,300)	-	(10,300)
6.4	14,609	-	14,609	(1,952)	12,657
	15,109		35,689		32,689
TOTAL EQUITY					

Note:

(*) – Extracted from the Group's audited financial statements for the financial year ended 31 December 2022.

For Identification Only



Crowe Malaysia PLT
201906000095 (LLP0016817-LCA) & AF 1018
Chartered Accountants

12. FINANCIAL INFORMATION (CONT'D)

Appendix A

MYMBN BERHAD

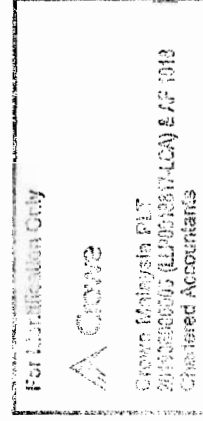
Registration No: 202201011844 (1457541-U)

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

	NOTE	As At 31.12.2022* RM'000	Adjustment For Public Issue RM'000	Pro Forma I After Public Issue RM'000	Adjustment for Utilisation of Proceeds RM'000	Pro Forma II After Pro Forma I and Utilisation of Proceeds RM'000
NON-CURRENT LIABILITIES						
Long-term borrowings		1,915	-	1,915	-	1,915
Deferred tax liabilities		173	-	173	-	173
		<u>2,088</u>		<u>2,088</u>		<u>2,088</u>
CURRENT LIABILITIES						
Trade and other payables		1,303	-	1,303	-	1,303
Short-term borrowings		2,490	-	2,490	-	2,490
Current tax liabilities		234	-	234	-	234
		<u>4,027</u>		<u>4,027</u>		<u>4,027</u>
TOTAL LIABILITIES		<u>6,115</u>		<u>6,115</u>		<u>6,115</u>
TOTAL EQUITY AND LIABILITIES		<u>21,224</u>		<u>41,804</u>		<u>38,804</u>
<i>Number of ordinary shares ('000)</i>		288,000		386,000		386,000
<i>Net assets ("NA") attributable to owners of the Company (RM'000)</i>		15,109		35,689		32,689
<i>NA per ordinary share (sen)</i>		5.25		9.25		8.47

Note:

(*) – Extracted from the Group's audited financial statements for the financial year ended 31 December 2022.



12. FINANCIAL INFORMATION (CONT'D)

Appendix A

MYMBN BERHAD

Registration No: 202201011844 (1457541-U)

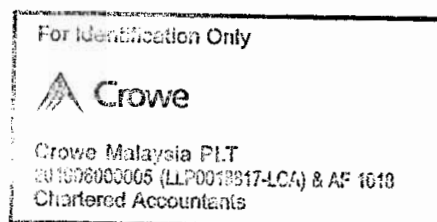
**NOTES TO PRO FORMA STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022****1. ABBREVIATIONS**

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

MYMBN or Company	MYMBN Berhad Registration No.: 202201011844 (1457541-U)
The Group	MYMBN and its Subsidiaries, collectively
Subsidiaries	MBN Enterprise and MBN International, collectively
MBN Enterprise	MBN Enterprise Sdn. Bhd. Registration No.: 200901041245 (884395-X)
MBN International	MBN International Sdn. Bhd. Registration No.: 202201038444 (1484141-K)
Bursa Securities	Bursa Malaysia Securities Berhad Registration No. 200301033577 (635998-W)
Listing	Admission of MYMBN to the Official List of Bursa Securities and listing of and quotation for the entire enlarged issued share capital of MYMBN on the ACE Market of Bursa Securities
Public Issue	Public issue of 98,000,000 new Shares by the Company
MYMBN Shares or Shares	Ordinary shares in MYMBN
RM and Sen	Ringgit Malaysia and sen, respectively
RCEBN	Raw clean edible bird's nest
RUCEBN	Raw unclean edible bird's nest

2. INTRODUCTION

The pro forma statements of financial position as at 31 December 2022 together with the notes thereon, for which the Board of Directors of the Company are solely responsible, have been prepared for illustrative purposes only for the purpose of inclusion in the prospectus in connection with the Listing and should not be relied upon for any other purposes.



12. FINANCIAL INFORMATION (CONT'D)

Appendix A

MYMBN BERHAD

Registration No: 202201011844 (1457541-U)

**NOTES TO PRO FORMA STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022 (CONT'D)****3. BASIS OF PREPARATION**

The Pro Forma Statements of Financial Position as at 31 December 2022 is prepared based on the audited financial statements of the Group as at 31 December 2022, which was prepared in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards, and in a manner consistent with the format of the audited financial statements and accounting policies of the Group.

The financial statements used in the preparation of these pro forma statements of financial position were not subject to any audit qualification or emphasis of matter.

The pro forma statements of financial position together with the related notes thereon, have been prepared solely to illustrate the impact of events and transactions as set out in Note 5 to the pro forma statements of financial position had the events occurred or transactions been undertaken on 31 December 2022. The pro forma statements of financial position are not necessarily indicative of the financial positions that would have been attained had the Listing actually occurred at the respective dates.

4. LISTING SCHEME

In conjunction with, and as an integral part of the Listing, MYMBN implemented and intends to undertake the following:-

4.1 Public Issue

The Public Issue of 98,000,000 new Shares, representing approximately 25.39% of the enlarged issued share capital of MYMBN at an issue price of RM0.21 per Share allocated in the following manner:-

- 19,300,000 new Shares made available for application by the Malaysian Public;
- 18,678,000 new Shares made available for application by the eligible directors and employees as well as persons who have contributed to the success of the Group; and
- 60,022,000 new Shares made available by way of private placement to selected investors.

4.2 Listing

The admission of MYMBN to the Official List of Bursa Securities and the listing of and quotation for the entire enlarged issued share capital of MYMBN of RM31,380,001 comprising 386,000,000 Shares on the ACE Market of Bursa Securities.

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

12. FINANCIAL INFORMATION (CONT'D)

Appendix A

MYMBN BERHAD

Registration No: 202201011844 (1457541-U)

**NOTES TO PRO FORMA STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022 (CONT'D)****5. PRO FORMA ADJUSTMENTS TO THE PRO FORMA STATEMENTS OF FINANCIAL POSITION****5.1 Pro Forma I**

Pro Forma I incorporates the effects of Public Issue set out in Note 4.1 to the Pro Forma Statements of Financial Position.

5.2 Pro Forma II

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

Purposes	Amount of proceeds		Estimated timeframe for utilisation from the date of Listing
	RM'000	%	
Business expansion:-			
• Purchase of New Facility to expand processing capacity ~	2,804	13.63	Within 24 months
• Renovation and fit out works of New Facility purchased #	3,200	15.55	Within 24 months
• Setting up of three (3) bird's nests collection centres in East Malaysia #	1,680	8.16	Within 24 months
• Expansion into the processing and sale of RCEBN ®	1,250	6.07	Within 24 months
Purchase of raw bird's nests for RUCBN #	6,600	32.07	Within 6 months
Working capital	2,046	9.94	Within 12 months
Estimated listing expenses *^	3,000	14.58	Within 3 months
	20,580	100.00	

Notes:-

~ The purchase of New Facility has been adjusted in the Pro Forma II to the pro forma statements of financial position as the Group has executed the Sale and Purchase Agreement on 19 August 2022 and paid a deposit of RM296,000 on 29 April 2022, which is funded by the internally generated fund, equivalent to 10.00% of the agreed purchase price of RM2,960,000. Included in RM2,804,000 are the remaining RM2,664,000 or 90% of the agreed purchase price and RM140,000 of estimated legal fees, stamping fees and other related costs.

These utilisations of proceeds are not adjusted in the Pro Forma II to the pro forma statements of financial position as they are not supported by any purchase order, sales and purchase agreement or any other contractual binding agreement, and hence, they remained in the cash and bank balances.

For Identification Only



Crowe Malaysia PLT
201909000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants

12. FINANCIAL INFORMATION (CONT'D)

Appendix A

MYMBN BERHAD

Registration No: 202201011844 (1457541-U)

**NOTES TO PRO FORMA STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022 (CONT'D)****5. PRO FORMA ADJUSTMENTS TO THE PRO FORMA STATEMENTS OF FINANCIAL POSITION (CONT'D)****5.2 Pro Forma II (Cont'd)**

Pro Forma II incorporates the effects of Pro Forma I and the utilisation of proceeds from Public Issue. The proceeds from the Public Issue will be utilised as follows (Cont'd):-

Notes (Cont'd):-

- ⊗ *The Group has executed an equity transfer agreement for acquisition of RCEBN processing company in the PRC on 9 May 2023 at the purchase consideration of RM350,000 and has paid a refundable deposit of RM100,000 on 14 July 2022 via internally generated fund. The acquisition of the said company is considered not material in accordance to the Prospectus Guidelines, hence is not adjusted in the Pro Forma II to the pro forma statements of financial position. The remaining balance of RM1,000,000 represents estimated legal fees, operating expenses and other costs relating to the expansion.*
- * *If the actual listing expenses are higher than budgeted, the deficit will be funded out of the portion allocated for working capital. Conversely, if the actual listing expenses are lower than budgeted, the excess will be used for working capital.*
- ^ *The estimated listing expenses of RM1,048,000 directly attributable to the Public Issue will be offset against share capital and the remaining estimated listing expenses of RM1,952,000 that are attributable to Listing will be expensed off to profit or loss.*

6. EFFECTS ON THE PRO FORMA STATEMENTS OF FINANCIAL POSITION**6.1 Property, Plant and Equipment**

	RM'000
As at 31 December 2022/As per Pro Forma I	1,636
Add: Pursuant to utilisation of proceeds:	
- Purchase of New Facility to expand processing capacity for RUCBN	2,804
As per Pro Forma II	4,440

6.2 Cash and Bank Balances

	RM'000
As at 31 December 2022	8,999
Add: Proceeds from public issue	20,580
As per Pro Forma I	29,579
Less: - Estimated listing expenses	(3,000)
- Purchase of New Facility to expand processing capacity for RUCBN	(2,804)
As per Pro Forma II	23,775

For Identification Only



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Chartered Accountants

12. FINANCIAL INFORMATION (CONT'D)

Appendix A

MYMBN BERHAD

Registration No: 202201011844 (1457541-U)

**NOTES TO PRO FORMA STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022 (CONT'D)****6. EFFECTS ON THE PRO FORMA STATEMENTS OF FINANCIAL POSITION (CONT'D)****6.3 Share Capital**

	Number of Ordinary Shares '000	Amount of Share Capital RM'000
As at 31 December 2022	288,000	10,800
Add: Public Issue	98,000	20,580
As per Pro Forma I	386,000	31,380
Less: Estimated listing expenses ^	-	(1,048)
As per Pro Forma II	386,000	30,332

Note:-

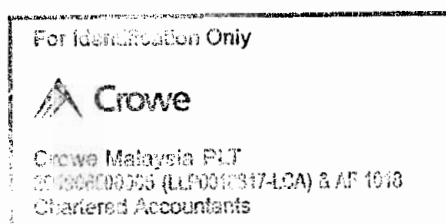
^ The estimated listing expenses of RM1,048,000 directly attributable to the Public Issue will be offset against share capital and the remaining estimated listing expenses of RM1,952,000 that are attributable to Listing will be expensed off to profit or loss.

6.4 Retained Profits

	RM'000
As at 31 December 2022/As per Pro Forma I	14,609
Less: Estimated listing expenses ^	(1,952)
As per Pro Forma II	12,657

Note:-

^ The estimated listing expenses of RM1,048,000 directly attributable to the Public Issue will be offset against share capital and the remaining estimated listing expenses of RM1,952,000 that are attributable to Listing will be expensed off to profit or loss.



12. FINANCIAL INFORMATION (CONT'D)

Appendix A

MYMBN BERHAD

Registration No: 202201011844 (1457541-U)

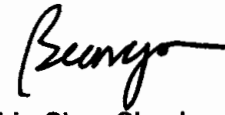
APPROVAL BY THE BOARD OF DIRECTORS

Approved and adopted by the Board of Directors in accordance with a resolution dated 2 June 2023.

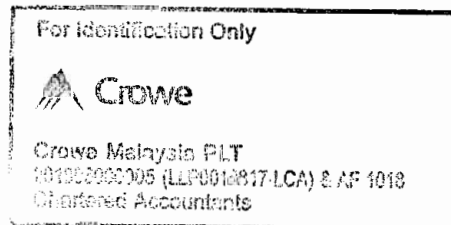
On behalf of the Board of Directors,



Lavernt Chen Yun Wo



Chin Chee Cheah



13. ACCOUNTANTS' REPORT

2 June 2023

The Board of Directors
MYMBN Berhad
No. 17, 19, 21, 23 & 25,
Jalan Melaka Raya 26
Taman Melaka Raya
75000 Melaka

Crowe Malaysia PLT
201906000005 (LLP0018817-LCA) & AF 1018
Chartered Accountants
52 Jalan Kota Laksamana 2/15
Taman Kota Laksamana, Seksyen 2
75200 Melaka
Malaysia
Main +6 06 282 5995
Fax +6 06 283 6449
www.crowe.my

Dear Sirs

REPORTING ACCOUNTANTS' OPINION ON THE FINANCIAL INFORMATION CONTAINED IN THE ACCOUNTANTS' REPORT OF MYMBN BERHAD ("MYMBN" OR "THE COMPANY")

OPINION

We have audited the financial information of the Company and its subsidiaries (collectively known as "the Group") which comprises the following:

- (a) The combined statements of financial position as at 31 December 2019, 2020 and 2021, combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the financial years ended ("FYE") 31 December 2019, FYE 2020, and FYE 2021;
- (b) The consolidated statement of the financial position as at 31 December 2022, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the FYE 31 December 2022; and
- (c) The notes to the financial statements, including a summary of significant accounting policies and other explanatory information

as set out in pages 5 to 65.

This historical financial information has been prepared for inclusion in the prospectus of MYMBN in connection with the listing of and quotation for the entire enlarged issued share capital of MYMBN on the ACE Market of Bursa Malaysia Securities Berhad ("the Listing"). This report is required by the Prospectus Guidelines issued by the Securities Commission Malaysia (the "Prospectus Guidelines") and is given for the purpose of complying with Chapter 10, Part II Division 1: Equity of the Prospectus Guidelines and for no other purpose.

In our opinion, the financial information gives a true and fair view of the financial position of the Group as at 31 December 2019, 31 December 2020, 31 December 2021 and 31 December 2022 and of their financial performance and their cash flows for each of the FYE 31 December 2019, FYE 31 December 2020, FYE 31 December 2021 and FYE 31 December 2022 in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards.

BASIS FOR OPINION

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

13. ACCOUNTANTS' REPORT (CONT'D)**INDEPENDENCE AND OTHER ETHICAL RESPONSIBILITIES**

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The Directors of the Group ("Directors") are responsible for the preparation of the financial information of the Group that give a true and fair view in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial information of the Group that are free from material misstatement, whether due to fraud or error.

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

REPORTING ACCOUNTANTS' RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL INFORMATION

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

13. ACCOUNTANTS' REPORT (CONT'D)**REPORTING ACCOUNTANTS' RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL INFORMATION (CONT'D)**

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

- Identify and assess the risks of material misstatement of the financial information of the Group, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial information of the Group or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial information of the Group, including the disclosures, and whether the financial information of the Group represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial information of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

13. ACCOUNTANTS' REPORT (CONT'D)



OTHER MATTER

The significant events during and after the end of the FYE 31 December 2022 have been disclosed in Note 27 to the financial statements.

RESTRICTION ON DISTRIBUTION AND USE

This report is made solely to the Group for inclusion in the prospectus of MYMBN in connection with the listing of and quotation for the entire enlarged issued share capital of MYMBN on the ACE Market of Bursa Malaysia Securities Berhad and for no other purpose. We do not assume responsibility to any other person for the content of this report contrary to the aforesaid purpose.

A handwritten signature in black ink, consisting of a stylized cursive 'C' followed by a horizontal line.

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

Melaka

A handwritten signature in black ink, consisting of a stylized cursive 'P' followed by a horizontal line.

Piong Yew Peng
03070/06/2023 J
Chartered Accountant

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			
	NOTE	2019 RM'000	2020 RM'000	2021 RM'000	2022 RM'000
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	4	691	1,178	1,817	1,636
Right-of-use assets	5	449	1,489	2,763	2,715
Deferred tax assets	6	79	30	-	-
Deposit placed for life insurance policy	8	-	-	80	80
		<u>1,219</u>	<u>2,697</u>	<u>4,660</u>	<u>4,431</u>
CURRENT ASSETS					
Inventories	7	2,403	3,254	5,085	4,310
Trade and other receivables	8	774	7,411	61	2,984
Fixed deposit with a licensed bank	9	-	-	-	500
Cash and bank balances		329	288	6,398	8,999
		<u>3,506</u>	<u>10,953</u>	<u>11,544</u>	<u>16,793</u>
TOTAL ASSETS		<u>4,725</u>	<u>13,650</u>	<u>16,204</u>	<u>21,224</u>
EQUITY AND LIABILITIES					
EQUITY					
Share capital	10(a)	-	-	-	10,800
Invested capital	10(b)	500	500	500	-
Merger deficit	11	-	-	-	(10,300)
Retained profits		349	3,555	10,287	14,609
TOTAL EQUITY		<u>849</u>	<u>4,055</u>	<u>10,787</u>	<u>15,109</u>
NON-CURRENT LIABILITIES					
Long-term borrowings	12	555	1,784	2,389	1,915
Deferred tax liabilities	6	-	-	144	173
		<u>555</u>	<u>1,784</u>	<u>2,533</u>	<u>2,088</u>
CURRENT LIABILITIES					
Trade and other payables	13	2,456	5,929	824	1,303
Amount due to directors	14	750	756	-	-
Short-term borrowings	15	99	172	1,133	2,490
Current tax liabilities		16	954	927	234
		<u>3,321</u>	<u>7,811</u>	<u>2,884</u>	<u>4,027</u>
TOTAL LIABILITIES		<u>3,876</u>	<u>9,595</u>	<u>5,417</u>	<u>6,115</u>
TOTAL EQUITY AND LIABILITIES		<u>4,725</u>	<u>13,650</u>	<u>16,204</u>	<u>21,224</u>
Number of ordinary shares ('000) #		288,000	288,000	288,000	288,000
Net assets ("NA") attributable to owners of the Company (RM'000)		849	4,055	10,787	15,109
NA per ordinary share attributable to owners of the Company (sen)		<u>0.29</u>	<u>1.41</u>	<u>3.75</u>	<u>5.25</u>

Note :

(#) – It is assumed to be the number of ordinary shares before public issue.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTE	FYE 31 December			
		2019 RM'000	2020 RM'000	2021 RM'000	2022 RM'000
REVENUE	17	11,897	44,408	91,556	68,871
COST OF SALES		(10,775)	(38,899)	(80,575)	(58,911)
GROSS PROFIT ("GP")		1,122	5,509	10,981	9,960
OTHER INCOME		2	101	224	19
		1,124	5,610	11,205	9,979
ADMINISTRATIVE EXPENSES		(622)	(1,105)	(2,169)	(3,660)
SELLING AND DISTRIBUTION EXPENSES		(243)	(141)	(118)	(101)
FINANCE COSTS		(24)	(51)	(101)	(171)
REVERSAL OF IMPAIRMENT LOSSES ON FINANCIAL ASSETS	18	-	-	138	-
PROFIT BEFORE TAXATION ("PBT")	19	235	4,313	8,955	6,047
INCOME TAX EXPENSE	20	(48)	(1,107)	(2,223)	(1,725)
PROFIT AFTER TAXATION ("PAT")		187	3,206	6,732	4,322
OTHER COMPREHENSIVE INCOME		-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR		187	3,206	6,732	4,322
GP Margin (%)		9.43	12.41	11.99	14.46
PBT Margin (%)		1.98	9.71	9.78	8.78
PAT Margin (%)		1.57	7.22	7.35	6.28
Effective tax rate (%)		20.43	25.67	24.82	28.53
Earnings before interest, tax, depreciation and amortisation ("EBITDA") (RM'000)		365	4,567	9,336	6,526
Number of ordinary shares ('000) #		288,000	288,000	288,000	288,000
Basic and diluted earnings per share ("EPS") (sen)	21	0.06	1.11	2.34	1.50

Note :

(#) – It is assumed to be the number of ordinary shares before public issue.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

STATEMENTS OF CHANGES IN EQUITY

	NOTE	< -----Non-distributable----- >			Distributable	Total Equity RM'000
		Share Capital RM'000	Invested Capital RM'000	Merger Deficit RM'000	Retained Profits RM'000	
Balance at 1.1.2019		-	500	-	162	662
Profit after taxation/Total comprehensive income for the financial year		-	-	-	187	187
Balance at 31.12.2019/1.1.2020		-	500	-	349	849
Profit after taxation/Total comprehensive income for the financial year		-	-	-	3,206	3,206
Balance at 31.12.2020/1.1.2021		-	500	-	3,555	4,055
Profit after taxation/Total comprehensive income for the financial year		-	-	-	6,732	6,732
Balance at 31.12.2021/1.1.2022		-	500	-	10,287	10,787
Profit after taxation/Total comprehensive income for the financial year		-	-	-	4,322	4,322
Contributions by and distributions to owners of the Company:-						
- Incorporation of the Company	10(a)	*	-	-	-	*
- Issuance of shares for the acquisition of a subsidiary	10(a)	10,800	-	-	-	10,800
- Adjustment on the acquisition of a subsidiary	10(b)	-	(500)	(10,300)	-	(10,800)
Total transactions with owners		10,800	(500)	(10,300)	-	*
Balance at 31.12.2022		10,800	-	(10,300)	14,609	15,109

Note :

(*) – Amount is less than RM500.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

STATEMENTS OF CASH FLOWS

	NOTE	FYE 31 December			
		2019 RM'000	2020 RM'000	2021 RM'000	2022 RM'000
CASH FLOWS (FOR)/FROM OPERATING ACTIVITIES					
Profit before taxation		235	4,313	8,955	6,047
Adjustments for:-					
Depreciation of property, plant and equipment		102	188	249	279
Depreciation of right-of-use assets		6	20	42	48
Interest expenses		23	45	98	166
Loss on disposal of property, plant and equipment		-	-	*	-
Interest income		(2)	(5)	(11)	(19)
Reversal of impairment losses on trade receivables		-	-	(138)	-
Operating profit before working capital changes		364	4,561	9,195	6,521
(Increase)/Decrease in inventories		(1,838)	(851)	(1,831)	775
Decrease/(Increase) in trade and other receivables		445	(6,634)	7,405	(2,923)
Increase/(Decrease) in trade and other payables		643	2,999	(2,905)	479
CASH (FOR)/FROM OPERATIONS		(386)	75	11,864	4,852
Tax refunded		2	-	-	-
Income tax paid		(32)	(120)	(2,076)	(2,389)
Interest paid		(23)	(45)	(98)	(166)
NET CASH (FOR)/FROM OPERATING ACTIVITIES		(439)	(90)	9,690	2,297
CASH FLOWS FOR INVESTING ACTIVITIES					
Interest received		2	5	11	19
Proceeds from disposal of plant and equipment		-	-	3	-
Purchase of property, plant and equipment	22(a)	(153)	(675)	(891)	(98)
Purchase of right-of-use assets (Advances to)/Repayment from related parties	22(a)	-	(1,060)	(1,316)	-
		-	(3)	3	-
NET CASH FOR INVESTING ACTIVITIES		(151)	(1,733)	(2,190)	(79)

Note :

(*) – Amount is less than RM500.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

STATEMENTS OF CASH FLOWS (CONT'D)

	NOTE	FYE 31 December			
		2019 RM'000	2020 RM'000	2021 RM'000	2022 RM'000
CASH FLOW FROM/(FOR) FINANCING ACTIVITIES					
Proceeds from issuance of ordinary shares		-	-	-	*
Drawdown of term loans	22(b)	540	1,354	747	-
Repayment of term loans	22(b)	(82)	(52)	(181)	(539)
Net drawdown of bankers' acceptance	22(b)	-	-	1,000	1,422
(Repayment to)/Advances from related parties	22(b)	(24)	474	(2,200)	-
Advances from/(Repayment to) directors	22(b)	-	6	(756)	-
Addition of fixed deposit pledged to a licensed bank		-	-	-	(500)
NET CASH FROM/(FOR) FINANCING ACTIVITIES		434	1,782	(1,390)	383
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(156)	(41)	6,110	2,601
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		485	329	288	6,398
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR		329	288	6,398	8,999

Note :

(*) – Amount is less than RM500.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS**1. ABBREVIATIONS**

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

Abbreviations

MYMBN or the Company	MYMBN Berhad Registration No. 202201011844 (1457541-U)
The Group	MYMBN, MBN Enterprise and MBN International collectively
MBN Enterprise	MBN Enterprise Sdn. Bhd. Registration No. 200901041245 (884395-X)
MBN International	MBN International Sdn. Bhd. Registration No. 202201038444 (1484141-K)
MASB	Malaysian Accounting Standards Board
IFRS	International Financial Reporting Standards
MFRS	Malaysian Financial Reporting Standards
MPERS	Malaysian Private Entity Reporting Standard
FPE	Financial Period Ended
FYE	Financial Year Ended
MYMBN Shares or Shares	Ordinary shares in MYMBN
RM and Sen	Ringgit Malaysia and sen, respectively
CA 2016	Companies Act 2016
PRC	People's Republic of China (excludes Special Administration Region of Hong Kong and Macao)

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13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**2. GENERAL INFORMATION**

The Company was incorporated in Malaysia under the CA 2016 on 31 March 2022 as a private limited company under the name of MYMBN Sdn. Bhd. The Company is domiciled in Malaysia and is principally engaged in investment holding. On 6 July 2022, the Company was converted to a public limited company under the name of MYMBN Berhad.

The registered office and principal place of business of the Group are as follows:-

Registered office : Level 5, Tower 8, Avenue 5
Horizon 2, Bangsar South City
59200 Kuala Lumpur

Principal place of business : No.17, 19, 21, 23 & 25
Jalan Melaka Raya 26
Taman Melaka Raya
75000 Melaka

Details of the subsidiaries are as follows:-

Name of subsidiaries	Date and place of incorporation	Effective equity interest %	Issued share capital RM	Principal activities
MBN Enterprise	31 December 2009 Malaysia	100	500,000	Processing and sale of edible bird's nest
MBN International	17 October 2022 Malaysia	100	100	Processing and sale of edible bird's nest

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13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES****3.1 BASIS OF PREPARATION**

For the purposes of inclusion of financial statements in the prospectus of MYMBN in connection with the Listing, the financial statements comprise:-

- (i) the combined statements of financial position as at 31 December 2019, 31 December 2020 and 31 December 2021, combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for each of the FYE 31 December 2019, FYE 31 December 2020 and FYE 31 December 2021.
- (ii) the consolidated statement of the financial position as at 31 December 2022, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the FYE 31 December 2022.

Entities under common control are entities which are ultimately controlled by the same parties and that control is not transitory. Control exists when the same parties have, as a result of contractual agreements, ultimate collective power to govern the financial and operating policies of each of the combining entities so as to obtain benefits from their activities, and that ultimate collective power is not transitory. The financial statements of common controlled entities are included in the financial statements from the day that control commences until the date that control ceases.

The financial statements of the Group for the relevant period were prepared in a manner similar to the merger method, as if the entities within the Group were operating as a single economic enterprise from the beginning of the earliest comparative period covered by the relevant period or the dates of incorporation of entities within the Group, if later. Such manner of presentation reflects the economic substance of the combining companies, which were under common control throughout the relevant period.

The identifiable assets and liabilities of all commonly controlled entities are accounted for at their historical costs. The accounting policies of common controlled entities have been changed where necessary to align them with the policies adopted by the Group.

All material intra-group transactions and balances have been eliminated on combination.

These financial statements of the Group are the combination or aggregation of all of the financial statements of the entities of the Group and have been prepared based on the financial statements for the relevant financial years/periods as follows:

Company	Relevant financial years/periods	Accounting standards applied	Auditors
MYMBN	FPE 31 December 2022	MFRS	Crowe Malaysia PLT
MBN Enterprise	FYE 31 December 2019	MPERS	Sim & Teo PLT
	FYE 31 December 2020	MFRS	Crowe Malaysia PLT
	FYE 31 December 2021	MFRS	Crowe Malaysia PLT
	FYE 31 December 2022	MFRS	Crowe Malaysia PLT
MBN International	FPE 31 December 2022	MFRS	Crowe Malaysia PLT

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.1 BASIS OF PREPARATION (CONT'D)**

The consolidated financial statements of the Group for the FYE 31 December 2022 were prepared based on the audited consolidated financial statements of MYMBN and its subsidiaries for the FYE 31 December 2022.

The combined financial statements for the FYE 31 December 2019, 2020 and 2021 do not include MYMBN and MBN International as they were only incorporated on 31 March 2022 and 17 October 2022, respectively.

The combined financial statements of MBN Enterprise for FYE 31 December 2019 have been re-audited by Crowe Malaysia PLT, prepared in accordance with MFRS, IFRS and Prospectus Guidelines for the purpose of inclusion in the prospectus to be issued by MYMBN in connection with the Listing and should not be relied upon for any other purpose.

The separate statutory audited financial statements of MYMBN, MBN Enterprise and MBN International were not subject to any modified audit opinions.

3.2 NEW MFRSS, AMENDMENT TO MFRSS AND IC INTERPRETATIONS THAT HAVE BEEN ISSUED BUT ARE NOT YET EFFECTIVE

The Group has not applied in advance the following accounting standards and/or interpretations (including the consequential amendments, if any) that have been issued by the MASB but are not yet effective for the current financial year:-

MFRSs and/or IC Interpretations (Including The Consequential Amendments)	Effective Date
MFRS 17 Insurance Contracts	1 January 2023
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
Amendments to MFRS 16: Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to MFRS 17: Insurance Contracts	1 January 2023
Amendment to MFRS 17: Initial Application of MFRS 17 and MFRS 9 – Comparative Information	1 January 2023
Amendments to MFRS 101: Disclosure of Accounting Policies	1 January 2023
Amendments to MFRS 101: Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to MFRS 101: Non-current Liabilities with Covenants	1 January 2024
Amendments to MFRS 108: Definition of Accounting Estimates	1 January 2023
Amendments to MFRS 112: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

The adoption of the above accounting standards and/or interpretations (including the consequential amendments, if any) is expected to have no material impact on the financial statements of the Group upon their initial application.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.3 SIGNIFICANT ACCOUNTING POLICIES****(a) Critical Accounting Estimates and Judgements***Key Sources of Estimation Uncertainty*

Management believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year other than as disclosed below:-

(i) Depreciation of Property, Plant and Equipment

The estimates for the residual values, useful lives and related depreciation charges for the property, plant and equipment are based on commercial factors which could change significantly as a result of technical innovations and competitors' actions in response to the market conditions. The Group anticipates that the residual values of its equipment will be insignificant. As a result, residual values are not being taken into consideration for the computation of the depreciable amount. Changes in the expected level of usage and technological development could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

(ii) Impairment of Trade Receivables

The Group uses the simplified approach to estimate a lifetime expected credit loss allowance for all trade receivables. The Group develops the expected loss rates based on the payment profiles of past sales including changes in the customer payment profile in response to the COVID-19 pandemic 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.

(iii) Income Taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Group recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax expense and deferred tax balances in the period in which such determination is made.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(a) Critical Accounting Estimates and Judgements (Cont'd)***Critical Judgement Made in Applying Accounting Policies*

Management believes that there are no instances of application of critical judgement in applying the Group's accounting policies which will have a significant effect on the amounts recognised in the financial statements other than as disclosed below:-

(i) Lease Terms

Some leases contain extension options exercisable by the Group before the end of the non-cancellable contract period. In determining the lease term, management considers all facts and circumstances including the past practice and any cost that will be incurred to change the asset if an option to extend is not taken. An extension option is only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

(b) Basis of Combination and Consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Potential voting rights are considered when assessing control only when such rights are substantive. The Group also considers it has de facto power over an investee when, despite not having the majority of voting rights, it has the current ability to direct the activities of the investee that significantly affect the investee's return.

Subsidiaries are consolidated from the date on which control is transferred to the Group up to the effective date on which control ceases, as appropriate.

Intragroup transactions, balances, income and expenses are eliminated on consolidation. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

(i) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Under the acquisition method, the consideration transferred for acquisition of a subsidiary is the fair value of the assets transferred, liabilities incurred and the equity interests issued by the Group at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs, other than the costs to issue debt or equity securities, are recognised in profit or loss when incurred.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(b) Basis of Combination and Consolidation (Cont'd)****(i) Business Combinations (Cont'd)**

In a business combination achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

Non-controlling interests in the acquiree may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets at the date of acquisition. The choice of measurement basis is made on a transaction-by-transaction basis.

However, an acquisition that resulted in a business combination involving common control entities is outside the scope of MFRS 3 Business Combinations. For such common control combinations, the merger accounting principles are used to include the assets, liabilities, results, equity changes and cash flows of the combining entities in the audited financial statements.

In applying merger accounting, financial statements items of the combining entities or businesses for the reporting period in which common control combination occurs are included in the audited financial statements of the Group as if the combination had occurred from the date when the combining entities or businesses first come under the control of the controlling party or parties. Under merger accounting, the Group recognises the assets, liabilities and equity of the combining entities or businesses at the carrying amount as if such audited financial statements had been prepared by the controlling party including adjustments required for conforming to the Groups' accounting policies and applying those policies to all period presented. There is no recognition of any goodwill or a gain from bargain purchase at the time of the common control combination. The effect of all transactions and balances between combining entities, whether occurring before or after the combination, are eliminated in preparing the audited financial statements of the Group.

(ii) Non-controlling Interests

Non-controlling interests are presented within equity in the statements of financial position, separately from the equity attributable to owners of the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(b) Basis of Combination and Consolidation (Cont'd)****(iii) Changes in Ownership Interests in Subsidiaries Without Change of Control**

All changes in the parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of consideration paid or received is recognised directly in the equity of the Group.

(iv) Loss of Control

Upon the loss of control of a subsidiary, the Group recognises any gain or loss on disposal in profit or loss which is calculated as the difference between:-

- (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest in the former subsidiary; and
- (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the former subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the former subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of (i.e. reclassified to profit or loss or transferred directly to retained profits). The fair value of any investments retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under MFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(c) Functional and Foreign Currencies**(i) Functional and Presentation Currency**

The individual financial statements of each entity in the Group are presented in the currency of the primary economic environment in which the entity operates, which is the functional currency.

The financial statements are presented in Ringgit Malaysia ("RM"), which is the Company's functional and presentation currency.

(ii) Foreign Currency Transactions and Balances

Transactions in foreign currencies are converted into the functional currency on initial recognition, using the exchange rates at the transaction dates. Monetary assets and liabilities at the end of the reporting period are translated at the exchange rates ruling as of that date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. All exchange differences are recognised in profit or loss.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(d) Financial Instruments**

Financial assets and financial liabilities are recognised in the statements of financial position when the Group has become a party to the contractual provisions of the instruments.

Financial instruments are classified as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and their definitions in MFRS 132. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially at its fair value (other than trade receivables without significant financing component which are measured at transaction price as defined in MFRS 15 at inception). Transaction costs that are directly attributable to the acquisition or issue of the financial instrument (other than a financial instrument at fair value through profit or loss) are added to/deducted from the fair value on initial recognition, as appropriate. Transaction costs on the financial instrument at fair value through profit or loss are recognised immediately in profit or loss.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

(i) Financial Assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value (through profit or loss, or other comprehensive income), depending on the classification of the financial assets.

*Debt Instruments***(i) Amortised Cost**

The financial asset is held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. When the asset has subsequently become credit-impaired, the interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(d) Financial Instruments (Cont'd)****(i) Financial Assets (Cont'd)***Debt Instruments (Cont'd)***(i) Amortised Cost (Cont'd)**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding expected credit losses, through the expected life of the financial asset or a shorter period (where appropriate).

(ii) Fair Value through Other Comprehensive Income

The financial asset is held for both collecting contractual cash flows and selling the financial asset, where the asset's cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through other comprehensive income and accumulated in the fair value reserve, except for the recognition of impairment, interest income and foreign exchange difference which are recognised directly in profit or loss. Interest income is calculated using the effective interest method.

(iii) Fair Value through Profit or Loss

All other financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

The Group reclassifies debt instruments when and only when its business model for managing those assets change.

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13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(d) Financial Instruments (Cont'd)****(i) Financial Assets (Cont'd)***Equity Instruments*

All equity investments are subsequently measured at fair value with gains and losses recognised in profit or loss except where the Group has elected to present the subsequent changes in fair value in other comprehensive income and accumulated in the fair value reserve at initial recognition.

The designation at fair value through other comprehensive income is not permitted if the equity investment is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise.

Dividend income from this category of financial assets is recognised in profit or loss when the Group's right to receive payment is established unless the dividends clearly represent a recovery of part of the cost of the equity investments.

(ii) Financial Liabilities**(i) Financial Liabilities at Fair Value through Profit or Loss**

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. The changes in fair value of these financial liabilities are recognised in profit or loss.

(ii) Other Financial Liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability or a shorter period (where appropriate).

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(d) Financial Instruments (Cont'd)****(iii) Equity Instruments**

Equity instruments classified as equity are measured initially at cost and are not remeasured subsequently.

Ordinary Shares

Ordinary shares are classified as equity and recorded at the proceeds received, net of directly attributable transaction costs.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

(iv) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the carrying amount of the asset and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of a debt instrument classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified from equity to profit or loss. In contrast, there is no subsequent reclassification of the fair value reserve to profit or loss following the derecognition of an equity investment.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(e) Investment in Subsidiaries

Investments in subsidiaries are stated at cost in the statement of financial position of the Company, and are reviewed for impairment at the end of the reporting period if events or changes in circumstances indicate that the carrying values may not be recoverable. The cost of the investments includes transaction costs.

On the disposal of the investments in subsidiaries, the difference between the net disposal proceeds and the carrying amount of the investments is recognised in profit or loss.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(f) Property, Plant and Equipment**

All items of property, plant and equipment are initially measured at cost. Cost includes expenditure that are directly attributable to the acquisition of the asset and other costs directly attributable to bringing the asset to working condition for its intended use.

Subsequent to initial recognition, all property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of equipment are recognised in profit or loss as incurred.

Depreciation on the property, plant and equipment, with the exception of capital work in progress are charged to profit or loss on a straight-line method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:-

Computer and office equipment	10% - 25%
Furniture and fittings	10%
Renovation	10%
Cold room, machinery and equipment	10%
Motor vehicles	20%

Capital work-in-progress included in property, plant and equipment are not depreciated as these assets are not yet available for use.

The depreciation method, useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of the property, plant and equipment. Any changes are accounted for as a change in estimate.

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising from derecognition of the asset, being the difference between the net disposal proceeds and the carrying amount, is recognised in profit or loss.

13. ACCOUNTANTS' REPORT (CONT'D)**MYMBN BERHAD**

Registration No: 202201011844 (1457541-U)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)**3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****3.3 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(g) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out method, and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition.

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

(h) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, bank balances and demand deposits that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value with original maturity periods of three months or less.

(i) Impairment**(i) Impairment of Financial Assets**

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at fair value through other comprehensive income and trade receivables.

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group always recognises lifetime expected credit losses for trade receivables using the simplified approach. The expected credit losses on these financial assets are estimated using the judgement in making these assumptions and selecting appropriate inputs to the impairment calculation, based on the past payment trends, existing market conditions and forward-looking estimates at the end of each reporting period.

For all other financial instruments, the Group recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.