

THE ADMISSION OF SAFETYWARE GROUP BERHAD TO THE LEAP MARKET WAS ADVISED BY OUR APPROVED ADVISOR, WYNCORP ADVISORY SDN BHD



SAFETYWARE GROUP BERHAD

Registration No.: 202001037668 (1393989-P)
(Incorporated in Malaysia under the Companies Act, 2016)

UNAUDITED FINANCIAL STATEMENTS FOR THE 6-MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2022

**(APPENDIX 6A, PART A OF THE LEAP MARKET LISTING REQUIREMENTS OF BURSA
MALAYSIA SECURITIES BERHAD)**

CHARACTERISTICS OF THE LEAP MARKET OF BURSA MALAYSIA SECURITIES BERHAD (THE "EXCHANGE")

THE LEAP MARKET HAS BEEN POSITIONED AS A MARKET DESIGNED TO ACCOMMODATE CORPORATIONS TO WHICH A HIGHER INVESTMENT RISK MAY BE ATTACHED THAN OTHER CORPORATIONS LISTED ON THE EXCHANGE. IT IS A QUALIFIED MARKET WHICH IS MEANT MAINLY FOR SOPHISTICATED INVESTORS ONLY. ONLY EXISTING SECURITIES HOLDERS AND SOPHISTICATED INVESTORS ARE ALLOWED TO PARTICIPATE IN CORPORATE EXERCISES UNDERTAKEN BY SAFETYWARE GROUP BERHAD ("SAFETYWARE" OR THE "COMPANY"). SOPHISTICATED INVESTORS SHOULD BE AWARE OF THE POTENTIAL RISKS OF INVESTING IN SUCH CORPORATIONS AND SHOULD MAKE THE DECISION TO INVEST ONLY AFTER DUE AND CAREFUL CONSIDERATION.

**CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME ⁽¹⁾
FOR THE 2ND HALF YEAR ENDED AND FINANCIAL PERIOD ENDED 31 DECEMBER 2022**

	Individual 6 months ended		Cumulative 12 months ended	
	Unaudited 31.12.2022 RM'000	Unaudited 31.12.2021 RM'000	Unaudited 31.12.2022 RM'000	Audited 31.12.2021 RM'000
Revenue	16,976	18,873	34,064	35,943
Cost of sales	(11,840)	(12,570)	(23,651)	(24,447)
Gross profit	5,136	6,303	10,413	11,496
Other operating income	516	380	629	721
Administrative expenses	(6,315)	(5,769)	(10,828)	(11,159)
Selling and distribution expenses	(165)	(6)	(243)	(22)
Finance costs	(537)	(350)	(997)	(776)
Impairment loss on trade receivables	(76)	(4)	(116)	(4)
Shares of loss in associate, net of tax	(6)	(9)	(9)	(12)
Profit/(Loss) before taxation	(1,447)	545	(1,151)	244
Taxation	2	(79)	(62)	(119)
Profit/(Loss) for the financial period	(1,445)	466	(1,213)	125
Foreign currency translations	20	12	36	6
Total comprehensive income/(loss)	(1,425)	478	(1,177)	131
Profit/(Loss) for the financial year attributable to:				
Owners of the parent	(1,445)	466	(1,213)	125
Total comprehensive income/(loss) attributable to:				
Owners of the parent	(1,425)	478	(1,177)	131
Earnings/(Losses) per share attributable to owners of Safetyware:				
- Basic / Diluted (sen) ⁽²⁾	(0.45)	0.15	(0.38)	0.04

Notes:

- (1) The Condensed Consolidated Statements of Profit or Loss and Other Comprehensive Income should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2021 and the accompanying explanatory notes attached to this interim financial report.
- (2) Earnings/(Losses) per share is computed based on the Company's number of shares currently in issue of 319,205,402 ordinary shares.

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ⁽¹⁾
AS AT 31 DECEMBER 2022**

	Unaudited 31.12.2022 RM'000	Audited 31.12.2021 RM'000
Non-current assets		
Property, plant and equipment	14,757	14,484
Right-of-use assets	8,219	5,811
Investment in an associate	5	14
	22,981	20,309
Current assets		
Inventories	9,378	8,946
Trade and other receivables	6,710	8,127
Current tax asset	228	124
Cash and bank balances	1,746	2,574
	18,062	19,771
TOTAL ASSETS	41,043	40,080
Equity		
Share capital	13,381	13,381
Reserves	2,946	4,123
Total Equity	16,327	17,504
Non-current liabilities		
Borrowings	11,784	11,039
Lease liabilities	2,031	1,654
	13,815	12,693
Current liabilities		
Trade and other payables	4,239	4,537
Contract liabilities	518	565
Borrowings	5,097	4,052
Lease liabilities	1,047	728
Current tax liabilities	-	1
	10,901	9,883
TOTAL LIABILITIES	24,716	22,576
TOTAL EQUITY AND LIABILITIES	41,043	40,080
Net assets per ordinary share attributable to owners of Safetyware ⁽²⁾ (sen)	5.11	5.48

Notes:

(1) The Condensed Consolidated Statement of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 31 December 2021 ("FYE 2021") and the accompanying explanatory notes attached to this interim financial report.

(2) Net assets per share is calculated based on the Company's number of ordinary shares at the end of the reporting period of 319,205,402 shares as at 31 December 2022.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY ⁽¹⁾
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

	[----- Audited -----]				Total Equity RM'000
	Share capital RM'000	Exchange translation reserve RM'000	Reorganisation debit reserve RM'000	Retained earnings RM'000	
At 1 January 2021	1,500	90	-	9,302	10,892
Profit/(Loss) for the financial year	-	-	-	125	125
Foreign currency translations	-	6	-	-	6
Total comprehensive income	-	6	-	125	131
Total transactions with owners:					
Issuance of ordinary shares	6,481	-	-	-	6,481
Acquisition of subsidiaries in business combination under common control	5,400	-	(5,400)	-	-
Total transactions with owners	11,881	-	(5,400)	-	6,481
At 31 December 2021	13,381	96	(5,400)	9,427	17,504

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY ⁽¹⁾
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022 (CONT'D)**

	[----- Unaudited -----]				Total Equity RM'000
	[----- Non-distributable -----]		Distributable		
	Share capital RM'000	Exchange translation reserve RM'000	Reorganisation debit reserve RM'000	Retained earnings RM'000	
At 1 January 2022	13,381	96	(5,400)	9,427	17,504
Profit/(Loss) for the financial year	-	-	-	(1,213)	(1,213)
Foreign currency translations	-	36	-	-	36
Total comprehensive income/(loss)	-	36	-	(1,213)	(1,177)
At 31 December 2022	13,381	132	(5,400)	8,214	16,327

Note:

(1) *The unaudited Consolidated Statements of Changes in Equity should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2021 and the accompanying explanatory notes attached to this interim financial report.*

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**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS ⁽¹⁾
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022**

	Cumulative 12-months ended	
	Unaudited	Audited
	31.12.2022	31.12.2021
	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) before tax	(1,151)	244
<u>Adjustments for:</u>		
Depreciation of property, plant and equipment	1,118	915
Depreciation of right-of-use assets	895	625
Unrealised loss on foreign exchange	21	5
Finance cost	997	776
Share of loss of associate	9	12
Gain on disposal of property, plant and equipment	-	(156)
Gain on disposal of right-of-use assets	-	(62)
Impairment loss on trade receivables	116	4
	2,005	2,363
Increase in inventories	(432)	(1,220)
Decrease/(Increase) in trade and other receivables	1,282	(1,970)
(Decrease)/Increase in trade and other payables	(298)	282
(Decrease)/Increase in contract liabilities	(47)	16
	2,510	(529)
Cash generated from / (used in) operations	(167)	(649)
Tax paid		
Net cash generated from / (used in) operating activities	2,343	(1,178)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,437)	(1,888)
Purchase of right-of-use assets	(1,652)	(217)
Proceeds from disposal of property, plant and equipment	59	156
Proceeds from disposal of right-of-use assets	-	62
	(3,030)	(1,887)
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown from:		
- bankers' acceptance	5,047	1,323
- trust receipts	328	419
- term loans	1,900	3,260
Repayment of:		
- bankers' acceptance	(5,055)	(2,652)
- trust receipts	(281)	(592)
- term loans	(1,032)	(4,183)
- lease liabilities	(969)	(803)
Interest paid	(997)	(645)
Issuance of ordinary shares	-	6,481
	(1,059)	2,608
Net generated cash from / (used in) financing activities		

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS ⁽¹⁾
FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2022 (CONT'D)**

	Cumulative 12-months ended	
	Unaudited	Audited
	31.12.2022	31.12.2021
	RM'000	RM'000
Net movement in cash and cash equivalents	(1,746)	(457)
Cash and cash equivalents at beginning of the financial period	892	1,343
Effects of exchange rate changes on cash and cash equivalents	35	6
	<u>35</u>	<u>6</u>
Cash and cash equivalents at end of the financial period	(819)	892
	<u>(819)</u>	<u>892</u>
Cash and cash equivalents comprise the following:		
Cash and bank balances	1,746	2,574
<u>Less</u>		
Bank overdraft	(2,565)	(1,682)
	<u>(2,565)</u>	<u>(1,682)</u>
	(819)	892
	<u>(819)</u>	<u>892</u>

Note:

(1) *The Condensed Consolidated Statements of Cash Flows should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2021 and the accompanying explanatory notes attached to this interim financial report.*

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SECTION A - EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD (“MFRS”) 134

A1. BASIS OF PREPARATION

The condensed consolidated financial statements as contained in this interim financial report are unaudited and have been prepared under the historical cost convention method unless otherwise stated. Any discrepancies in the tables between the amounts listed and the totals in this interim report are due to rounding.

These unaudited interim consolidated financial statements have been prepared in accordance with the requirements of MFRS 134: *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board (“MASB”) and Part C, Rule 6.12 and Appendix 6A, Part A of the LEAP Market Listing Requirements (“LEAP LR”) issued by Bursa Malaysia Securities Berhad (“Bursa Securities”).

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the financial year ended 31 December 2021 and the accompanying explanatory notes attached to this interim financial report. The explanatory notes contained herein provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial year ended 31 December 2021.

A2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation adopted in the preparation of the unaudited consolidated interim financial statements are consistent with those adopted in the most recent annual financial statements for the financial year ended 31 December 2021, except for the following Amendments to MFRSs as disclosed below:

Effective for annual periods commencing on or after 1 January 2022

- Annual Improvements to MFRS Standards 2018 – 2020
- Amendments to MFRS 3 *Business Combinations – Reference to the Conceptual Framework*
- Amendments to MFRS 116 *Property, Plant and Equipment – Proceeds before Intended Use*
- Amendments to MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*

The adoption of the above Amendments to MFRSs did not have any significant financial impact to the Group.

The following are Standards of the MFRS Framework that have been issued by the MASB but have not been early adopted by the Group:

Effective for annual periods commencing on or after 1 January 2023

- MFRS 17 *Insurance Contracts*
- Amendments to MFRS 17 *Initial Application of MFRS 17 and MFRS 9 – Comparative information*
- Amendments to MFRS 101 *Disclosure of Accounting Policies*
- Amendments to MFRS 108 *Accounting Policies, Changes in Accounting Estimates Errors – Definition of Accounting Estimates*
- Amendments to MFRS 112 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Effective for annual periods commencing on or after 1 January 2024

- Amendments to MFRS 16 *Lease Liability in a Sale and Leaseback*
- Amendments to MFRS 101 *Non-current Liabilities with Covenants*
- Amendments to MFRS 101 *Classification of Liability as Current or Non-current*

Deferred (date to be determined by MASB)

- Amendments to MFRS 10 and MFRS 128 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The Group is in the process of assessing the impact of implementing these accounting Standards and Amendments to the Standards since the effects would only be observable for the future financial years.

A3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

The auditors' report on the Group's most recent annual audited consolidated financial statements for the financial year ended 31 December 2021 were not subject to any qualification.

A4. SEASONALITY OR CYCLICALITY OF OPERATION

Generally, our Group's business is not subject to any significant cyclical or seasonal trend.

A5. UNUSUAL ITEMS

Save for the impact arising from COVID-19 pandemic and imposition of the wider lockdown in China on the overall economic and market environment, there were no other unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group during the financial period under review.

A6. MATERIAL CHANGES IN ESTIMATES

There were no significant changes in estimates of amounts reported in prior financial years that have a material impact on the financial period under review.

A7. DEBTS AND EQUITY SECURITIES

There was no issuance, cancellation, repurchase, resale and repayment of debts and equity securities during the financial period under review.

A8. DIVIDEND PAID

There were no dividends paid during the current financial period under review.

A9. MATERIAL EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

There were no material events subsequent to the end of the financial period under review that have not reflected in this interim financial report or announced to Bursa Securities.

A10. CHANGES IN THE COMPOSITION OF THE GROUP

There were no changes in the composition of our Group during the financial period under review.

A11. CHANGES IN MATERIAL LITIGATION AND CONTINGENT LIABILITIES

There were no litigation or arbitration, which has a material effect on the financial position of the Group, and the Board of Directors are not aware of any proceedings pending or threatened or of any fact likely to give rise to any proceedings.

A12. SEGMENT INFORMATION

Our Group is principally an integrated safety and health solutions provider involved in the manufacturing and distribution of safety and health products, provision of EHS training and consultancy services, as well as IT solutions.

Under our manufacturing segment, we produce a variety of safety and health products such as safety shoes, safety apparel, masks and respirators, and signage and labels, amongst others. Meanwhile, for our distribution segment, we distribute a variety of safety and health products such as PPE, facility and traffic safety equipment, and gas detectors, amongst others. As part of our integrated safety and health solution, we also provide EHS training and consultancy services and industrial hygiene assessment to our customers.

There is no change to the principal activities of the Group during the financial period under review.

By business segment

The following table sets out the breakdown of our Group's revenue by segment for the financial period under review:

	6-months period ended			
	31.12.2022		31.12.2021	
	RM'000	%	RM'000	%
Manufacturing of safety and health products	5,958	35.10	5,373	28.47
Distribution of safety and health products	10,780	63.50	13,357	70.77
Other services ⁽¹⁾	238	1.40	143	0.76
Total	16,976	100.00	18,873	100.00

	12-months period ended			
	31.12.2022		31.12.2021	
	RM'000	%	RM'000	%
Manufacturing of safety and health products	11,979	35.17	9,582	26.66
Distribution of safety and health products	21,701	63.70	26,080	72.56
Other services ⁽¹⁾	384	1.13	281	0.78
Total	34,064	100.00	35,943	100.00

Note:

(1) Consist of EHS training and consultancy services and IT solutions. Some of the customers to whom we provide these services are common customers who purchased our safety and health products under the manufacturing and/or distribution business segments.

SECTION B - ADDITIONAL INFORMATION REQUIRED BY THE LEAP MARKET LISTING REQUIREMENTS OF BURSA SECURITIES

B1. ANALYSIS OF PERFORMANCE

Revenue

For the 6-months period ended 31 December 2022 (“**2HFY22**”), our Group’s revenue decreased by approximately RM1.90 million or 10.05% to RM16.98 million as compared to total revenue of RM18.87 million for the corresponding period in the preceding year.

For the financial year ended 31 December 2022 (“**FYE 2022**”), our Group’s revenue decreased by approximately RM1.88 million or 5.23% to RM34.06 million as compared to total revenue of RM35.94 million in the financial year ended 31 December 2021 (“**FYE 2021**”).

The moderation in sales performance during the 2HFY22 and FYE 2022 was primarily due to decrease in revenue generated from distribution of safety and health products business segment, as a result of lower market demand and decrease in selling prices for some of the products particularly gloves and face masks.

Gross profit (“GP”) and GP margin

The following tables set out the breakdown of our Group’s GP and GP margin for the financial period under review:

	6-months period ended			
	31.12.2022		31.12.2021	
	RM’000	%	RM’000	%
Manufacturing of safety and health products	1,081	21.05	1,658	26.30
Distribution of safety and health products	3,923	76.38	4,581	72.68
Other services	132	2.57	64	1.02
Total	5,136	100.00	6,303	100.00

	12-months period ended			
	31.12.2022		31.12.2021	
	RM’000	%	RM’000	%
Manufacturing of safety and health products	2,117	20.33	2,532	22.02
Distribution of safety and health products	8,105	77.84	8,819	76.72
Other services	191	1.83	145	1.26
Total	10,413	100.00	11,496	100.00

GP margin	6-months period ended	
	31.12.2022	31.12.2021
	%	%
Manufacturing of safety and health products	18.14	30.85
Distribution of safety and health products	36.39	34.30
Other services	55.70	45.07
Overall margin	30.25	33.40

GP margin	12-months period ended	
	31.12.2022	31.12.2021
	%	%
Manufacturing of safety and health products	17.67	26.42
Distribution of safety and health products	37.35	33.82
Other services	49.74	51.60
Overall margin	30.57	31.98

Our Group's GP decreased by approximately RM1.17 million or 18.51% to RM5.14 million for 2HFY22 (6-months period ended 31 December 2021: RM6.30 million) and decreased by approximately RM1.08 million or 9.42% to RM10.43 million for the FYE 2022 (FYE 2021: RM11.50 million) respectively; in line with the moderation in sales during the 2HFY22 and FYE 2022.

Our Group's GP margin decreased to 30.25% for 2HFY22 (6-months period ended 31 December 2021: 33.40%) and 30.57% for the FYE 2022 (FYE 2021: 31.98%), mainly due to lower GP margin recorded from the manufacturing of safety and health products business segment as a result of rising material costs where the increase in cost could not be fully passed-on to the customers.

Profitability

Our Group recorded net loss after tax of RM1.45 million (6-months period ended 31 December 2021: profit after tax of RM0.47 million) and net loss after tax of RM1.21 million (FYE 2021: RM0.13 million) for the 2HFY22 and the FYE 2022 respectively; mainly due to moderation in sales and gross profit as explained above.

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B2. PROSPECTS

In the medium to long term (2024-2026), growth of the PPE industry in Malaysia is expected to be driven by the wide range of end-users, growing awareness of worker health and safety and favourable government regulations regarding occupational safety and health, and the demand from the construction and manufacturing sectors. The PPE industry in Malaysia is projected to expand from RM2.75 billion in 2021 to RM4.11 billion in 2026, registering a CAGR of 8.4% over the period.

(Source: Report by Protégé Associates Sdn Bhd as disclosed in the information Memorandum)

However, the market for medical-related PPE, including exam glove and face masks, has reached a saturation point after an abnormal surge during the Covid-19 pandemic. This has led to stiff competition and declining demand. Nevertheless, the Group's balanced exposure to different customer and product segments is expected to partially mitigate the impact of the decline in medical-related PPE through an increase in other industrial-related PPE.

Our Group's intent is to focus on our manufacturing division, particularly safety footwear production which we believe there will be healthy growth opportunities in Malaysia and the neighbouring countries. We will put in efforts to expand our reach to the export markets, as well as enlarge our distribution network through business partners.

The Group will continue to strengthen its operational efficiencies, optimise working capital, and remain focus on expanding its business operations. Barring any unforeseen circumstances, the Board of Directors will strive to ensure that the performance of the Group for the financial year ending 31 December 2023 will remain stable and healthy.

B3. DISCLOSURE ON SELECTED EXPENSE ITEMS

Included in profit or loss before tax are the following expense items:

	6-month ended		Cumulative 12-month ended	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021
	RM'000	RM'000	RM'000	RM'000
Depreciation of property, plant and equipment	558	491	1,118	915
Depreciation of right-of-use assets	467	342	895	625
Finance cost	537	350	997	776
Unrealised loss on foreign exchange	6	-	21	5
Impairment loss on receivables	76	4	116	4
Share of loss of associate	6	9	9	12

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SECTION C - OTHER INFORMATION

C1. STATUS OF CORPORATE PROPOSAL

There was no corporate proposal announced but pending completion as at the date of this report.

C2. UTILISATION OF PROCEEDS

The status of the utilisation of proceeds from the Excluded Issue for approximately RM6.48 million is as follows:

	Purpose	Proposed utilisation RM'000	Actual utilisation⁽¹⁾ RM'000	Balance RM'000	Estimated timeframe for utilisation upon completion of the allotment of shares
(i)	Expansion of manufacturing segment	2,600	2,600	-	Fully utilised
(ii)	Expansion of distribution coverage	1,400	1,170	230	Within 18 months
(iii)	Upgrade of ERP system	500	⁽³⁾ 500	-	Fully utilised
(iv)	Software development	150	-	150	Within 36 months ⁽²⁾
(v)	Repayment of borrowings	500	500	-	Fully utilised
(vi)	Working Capital	531	531	-	Fully utilised
(vii)	Listing expenses	800	⁽³⁾ 800	-	Fully utilised
	Total	6,481	6,101	380	

Notes:

(1) Status of utilisation as at 31.12.2022.

(2) In view of the economic uncertainties, the Group is putting more focus on the existing core operations (namely, manufacturing and distribution of safety and health products) and hence, a longer time is required for the implementation of software development. Accordingly, the estimated timeframe for utilisation will need to be extended from the original 18 months to 36 months.

(3) The excess amount earmarked for upgrade of ERP system and listing expenses were reallocated to working capital and have been fully utilised as at 31 December 2022.

C3. MATERIAL LITIGATION

There was no material litigation pending as at the date of this report.